Approved for tabling
SNA
22/10/15

REPUBLIC OF KENYA

Paper laid by Hon. Kareke Mbiuki, MP (Vice Chairperson) under Order No. 05 at 1449 Hrs on 22-10-2015
IBM

HARAMBEE

ELEVENTH PARLIAMENT - THIRD SESSION - 2015

THE NATIONAL ASSEMBLY

DEPARTMENTAL COMMITTEE OF AGRICULTURE, LIVESTOCK AND COOPERATIVES

REPORT ON THE PETITION BY THE STAKEHOLDERS OF THE NEW KENYA COOPERATIVE CREAMERIES ON THE IMMINENT PRIVATIZATION OF NEW KCC

OCTOBER , 2015

Directorate of Committee Services,
Clerk's Chambers
Parliament Buildings,
NAIROBI

ABBREVIATIONS /ACRONYMS

NKCC	- New Kenya Cooperative Creameries
KCC	- Original Kenya Cooperative Creameries
KCC2000	- Kenya Cooperative Creameries 2000
MOALF	-Ministry of Agriculture Livestock and Fisheries
GOK	-Government of Kenya
Cok2010	-Constitution of Kenya 2010
DFCL	-Dairy Farmers Cooperative Limited
EACC	- Ethics and Anti Corruption Commission

1.3 Committee Membership

The Committee comprise the following Members:-

1. The Hon. Adan Mohamed Nooru, MBS, M.P. - **Chairman**
2. The Hon. Japhet M. Kareke Mbiuki, M.P. - **Vice Chairman**
3. The Hon. Kabando Wa Kabando, M.P.
4. The Hon. Raphael Letimalo, M.P.
5. The Hon. Mary Wambui Munene, M.P.
6. The Hon. Francis Munyua Waititu, M.P.
7. The Hon. Peter Njuguna Gitau, M.P.
8. The Hon. Maison Leshoomo, M.P.
9. The Hon. Anthony Kimani Ichung'wah, M.P.
10. The Hon. Alfred Kiptoo Keter, M.P.
11. The Hon. Ayub Savula Angatia, M.P.
12. The Hon. Justice Kemei, M.P.
13. The Hon. Philip L. R. Rotino, M.P.
14. The Hon. Korei Ole Lemein, M.P.
15. The Hon. Silas Tiren, M.P.
16. The Hon. Benjamin Jomo Washiali, M.P.
17. The Hon. (Dr.) Victor Kioko Munyaka, M.P.
18. The Hon. John Bomett Serut, M.P.
19. The Hon. Millie Odhiambo, M.P.
20. The Hon. Fredrick Outa, M.P.
21. The Hon. Maanzo, Daniel Kitonga, M.P.
22. The Hon. James Opiyo Wandayi, M.P.
23. The Hon. Patrick Wangamiti, M.P.
24. The Hon. Ferdinand Kevin Wanyonyi, M.P.
25. The Hon. Paul Simba Arati, M.P.
26. The Hon. Florence Mwikali Mutua, M.P.
27. The Hon. John Kobado, M.P.
28. The Hon. Hezron Bollo Awitti, M.P.
29. The Hon. Zuleikha Hassan Juma, M.P.

1.6 *Committee Observations*

Having held meetings and considered the submissions presented on the petition, the Committee observed that:-

(a) Kenya Cooperative Creameries Limited was incorporated as a Public Limited Liability Company under the Companies Act (Cap486) on 22nd August 1925 and registered under the Cooperative Societies Ordinance in 1932. The objectives was to receive and process raw milk from the members into various products and market them on their behalf.

(b) The giant farmers Co-operative Society ran into insolvency and thereafter receivership in the 1999 over a Kenya Commercial Bank (KCB) debt of Kshs 400 million hence the original KCC was sold under unclear circumstances at throw-away price to private entrepreneurs who re-named it KCC2000. The NARC Government reclaimed the Company through an Executive Order and rebranded it NKCC on 25th June 2003 after paying Kshs 547 million to KCC2000 entity. The NKCC has been in existence for the last 13 years.

(c) A Register showing the original Shareholders of KCC is available contrary to the claims by Privatization Commission of Kenya (**Annex 3**).

(d) The Shareholding structure of KCC prior to receivership (1999) was as follows:

Individual Diary farmers	-	60.38%
Dairy Cooperative societies	-	35.56%
Government institutions	-	3.70%
Other Institution	-	0.34%

(e) Privatization Process of the NKCC began in 2010 with the objectives of addressing future governance and sustainability of NKCC operations and improve its competiveness.

(f) Privatization Commission through the following consortium of consultants undertook due diligence and options analysis in the privatization of NKCC.

   (i) Standard Investment Bank Ltd;
   (ii) Deloitte Consulting Ltd;
   (iii) Mereka & Co. Advocates Limited (Including Clean Earth Limited);
   (iv) Mboya & Wangong'u Advocates; and
   (v) Regent Valuers International (K) Limited.

(l) Privatization Commission proposes that farmers be given a three year period to allow them adequate time to purchase shares as per agreed Shareholding structure. Milk Farmers to be supported through Cooperative Societies to create a "vehicle" to be used to mobilize resources.

(m) There is need to avoid any action that appears to lift the receivership as other interested parties could easily launch a claim on the current value of NKCC.

(n) The GOK in 1999 instituted an Inquiry on the operations of Kenya Co-operative Creameries Limited (KCC) which was chaired by Mr. Stephen Kirugi a former deputy Commissioner Cooperatives. The Team presented the final report **(Annex 6)** to the Former President H.E Daniel Torotich Arap Moi ,EGH, CGH on August 1999. The Team's Terms of Reference for the inquest was the following:-

1. Establish the correct Financial Status of KCC Ltd and make appropriate recommendation to address the problem in order to revitalize the company;
2. Establish the indebtedness of KCC Ltd to Milk Farmers ,Raw Milk transporters ,Suppliers and Members of its staff ;
3. Establish the indebtedness of Board of Directors and Staff of KCC Ltd to organization since February 1996 ;
4. Examine Procurement Procedures for goods and services by KCC Ltd and determine whether they have been followed ;
5. Do an Inventory of all KCC Ltd assets and make necessary comments and recommendation; and
6. Investigate any other matter that had led to poor services to the Milk farmers by KCC Ltd.

(o) The Kirugi Commission of Inquiry Report **(Annex 6)** documents the followings as the key findings among others :

NON-COMPLIANCE TO THE PROCUREMENT PROCEDURES

There was total disregard of Procurement procedures as provided in the Procurement manual developed by the Government Task Force in June 1995 hence procurement of goods and services was done haphazardly and at the prerogative of Former Managing Director and other managers at all levels.

MILK COLLECTIONS ,PROCESSING AND MARKETING

Although KCC had an installed processing capacity of 1.8 million kgs per day, it started experiencing reduction in Milk collection in 1995. The total milk collection in 1995 was 213 million Kgs however by 1998 KCC could only collect 20 million Kgs per year. The downward trend was mainly contributed to non-payment of dues to Milk farmers who supply Raw milk. The mismanagement of the company by Former Board of Directors and Management also resulted in the inability of the KCC to meet daily financial obligations hence rendering the company inefficient and ineffective **See Report (Annex 6), Pg 79**

1.6 Response to the Prayers in the Petition

In response to the Petition prayers, the Committee recommends that

1. The Criminal Investigation Department (CID) and Ethics and Anti Corruption Commission(EACC) should investigate all former Board of Directors, Managing Directors and Staff of KCC who were mentioned in the Kirugi Commission Inquiry Report **(Annex 6)** with a view of prosecuting all culpable persons and reposes all KCC Assets that were irregularly acquired by individuals.
2. There exists a register of all original shareholders of the KCC**(Annex 3)**.Therefore the National Government must first consider the original shareholders of KCC or their assignees in the process of privatizing the NKCC.
3. The Ethics and Anti Corruption Commission to investigate Ms Regent Valuers Int Ltd , a firm contracted by Privatization Commission to undertake valuation of NKCC with a view of establishing its relationship with KCC2000 and whether conflict of interest exist since the firm carried out valuation of KCC Assets during the period(1999) when KCC was in receivership.
4. Proposed shareholding structure proposed by the Dairy farmers that gives the farmers 65% while strategic investor 25% and Government 10% be considered by National Government while arriving at the final shareholding structure of the privatized NKCC.
5. The National Government through the privatization process of NKCC, grants Dairy farmers two years to enable many Milk farmers buy the shares as per above proposed shareholding structure. Ministry of Industrialization and Enterprise Development to assist Milk farmers to create a 'vehicle' that shall assist them mobilize resources required.

28. The Hon. Hezron Bollo Awitti, M.P. ....

29. The Hon. Zuleikha Hassan Juma, M.P. ....

1.8 ACKNOWLEDGMENT

The Committee wishes to sincerely thank the Offices of the Speaker and the Clerk of the National Assembly for the support extended to it in the execution of its mandate.

I take this opportunity to thank all the Members of the Committee for their patience, sacrifice, endurance and hard work during the long sitting hours under tight schedules which enabled us to complete the tasks within the stipulated period.

The Committee wishes to record its appreciation for the services rendered by the staff of the National Assembly attached to the Committee. Their efforts made the work of the Committee and the production of this Report possible.

Finally, it is now my pleasant duty, on behalf of the Departmental Committee Agriculture Livestock and Cooperatives , to present this report to the House pursuant to the provisions of Standing Order 227 (2).

SIGNED:.. **DATE:**...22-10-2015...

for

HON. ADAN MOHAMED NOORU, MBS, M.P.

CHAIRPERSON, DEPARTMENTAL COMMITTEE ON AGRICULTURE, LIVESTOCK AND COOPERATIVES entrepreneurs who re-named it KCC 2000, before the NARC Government reclaimed it and rebranded it NKCC on 25th June 2003;

(v) The change in ownership of the original KCC to KCC 2000 and later NKCC did not conclusively determine , address and protect the rights and shareholding of farmers in the society;

(vi) The Government is at an advanced stage of privatizing the NKCC through an Initial Public Offer (IPO) of shares at the Nairobi Stock Exchange in a formula that allocates an insignificant 31% of the Shareholding to the farmers who are the majority stakeholders, and 10% to the Government;

(vii) That aware if the planned privatization of the NKCC proceeds without safeguarding the rights of the farmers , they risk permanent loss of their hard earned stakes worth billions of Kenya Shillings in the society by ceding 59% shareholding to the private investors;

(viii) This sale would be tantamount to the Government abdication of its duty to protect farmers' right to property as provided for under Article 40(3) of the Constitution; and

(ix) The inalienable rights of farmers to retain their majority stake can only be protected through a proposed privatization structure that would give farmers 85% of shareholding , Government 10% and staff of the Company 5% of the shareholding

2.4 Kenya Cooperative Creameries Limited was incorporated as a Public Limited Liability Company under the Companies Act (Cap486) on 22nd August 1925 and registered under the Cooperative Societies Ordinance in 1932. The objectives was to and still is to receive and process raw milk from the members into various products and market them on their behalf.

KCC Ltd was originally a settler's organization and utilized the company's legislation for operational and legal purposes whereas it used the cooperative legislation for tax purposes.

In 1968 the Cooperative Societies Act had lost its usefulness for tax purposes. Subsequently KCC was granted total exemption from the Cooperative Societies Act by the Minister for Cooperative Development under Section 86 of the Cooperative societies Act (Cap 490). Under Legal Notice No 125/1968 KCC was exempted from all the provisions of the Act and therefore purely operated under the Companies Act but retained the dual registration.

By early 1980s all was not well in KCC and the GOK was interested in finding out what was happening. However ,this was hindered by the exemptions given in 1968 under the Legal notice No

3.1 *Submission by the Hon. Joyce Laboso EGH ,MP and Representative of Milk farmers (Petitioners)*

Appearing before the Committee, the Petitioners made the following submissions:

(a) That, KCC was established in 1925 to enable milk farmers to market their produce and grow their savings and the majority stake in the original KCC is held by small scale farmers and estimated a net worth of Kshs 5 billion.

(b) That a conspiracy of mismanagement allegedly plunged the giant farmers co-operative society into insolvency and thereafter receivership in the late 1990's hence the original KCC was sold under unclear circumstances at throw-away price to private entrepreneurs who re-named it KCC2000, before the NARC Government reclaimed it and rebranded it NKCC on 25th June 2003.

(c) The change in ownership of the original KCC to KCC 2000 and later NKCC did not conclusively determine, address and protect the rights and shareholding of Milk farmers in the country.

(d) Farmers had been advised by the former Government to raise Kshs 400 million to settle the Kenya Commercial Bank debt in order that KCC is not put under receivership. But the farmers under the leadership of Retired Brig General Daudi Tonje could not be able to raise the stated amount of money.

(e) In 2003 after the NARC government took reins of power the former Minister of Cooperatives Hon. Joseph Nyaga advised farmers to establish a organization "vehicle" that shall be used to transfer the NKCC back to farmers hence the birth of Kenya Dairy Farmers Cooperative Limited (KDFCL)

(f) That, the transfer of KCC by the then government was done in a shoddy way and that farmers were arm-twisted in the transfer.

(g) An amount of Ksh.525 million was lost by the farmers who had made milk deliveries to the Company and if the company was not returned to them then they will stand to lose twice

(h) The Rregister showing the original shareholders of KCC is available contrary to the claims by Privatization Commission.

(i) That, as Milk farmers representative they do not need a strategic partner since the company (NKCC) is now relatively stable and is marking profits

(j) That, the National government considers writing off the farmers debts in the company like it had done with other farmers organizations in order to assist the Milk farmers recover economically.

(iv) Regent Valuers International (K) Limited.

(v) Standard Investment Bank Ltd.

(e) The Commission indentified the various key stakeholders of the NKCC as Milk producers ,GOK ,Milk consumers and NKCC staff among other stakeholders.

(f) The Commission in the Financial year 2010/11 compiled and completed the following reports related to the privatization process:

(i) Legal Due Diligence Report (November, 2010)

(ii) Environmental and Technical Due Diligence Report Vol I-III (December, 2010)

(iii) Asset Valuation Report by Regent Valuers Int (K) Limited (August, 2010)

(iv) Final Financial and Operational Due Diligence Report (November, 2010) Annex 1

(v) Options Analysis Report (February, 2011)

(vi) Restructuring Report (March, 2011)

(i) Due to the non-existence of the Privatization Commission Board for a period of twenty months from March, 2011 to September, 2012 the Commission could not finalize the recommendation for submission to the National Treasury for consideration and approval by the Cabinet.

(j) The Commission through further consultations including its stakeholders meeting with the milk farmers held on 15th May 2014 compiled a final updated reports as follows

(i) Updated High Level Due Diligence Report (February , 2014)

(ii) Updated Options Analysis Report (February, 2014)

(k) The Final Updated Options Analysis Report which was submitted to the Committee in March 2015 had taken into account issues raised by the Milk farmers at the Stakeholders workshop held on 15th May, 2014

(l) The Final Updated Options Analysis Report concluded that:

1) The original shareholders residual value at receivership was negative.

2) Privatization is the only way of transferring shares to the Milk farmers given that the Company had been on receivership.

3) Though Statement by GOK officials (Letter by former Permanent Secretary Benjamin Sogomo) stated the intention to "restore" the company back to milk farmers ,this was never backed by any technical strategy.

4) It would be difficult to indentify original shareholders of KCC and would be technically and financially unjustified with possibility of creating other major problems

(e) NKCC despite its fairly stable performance, the company is still faced with serious cash-flow problems. In 2014 the NKCC was facilitated with Kshs 800 million bank overdraft while in 2015 a request for an additional overdraft of Kshs 300 million has been forwarded.

(f) The consultations were still on preliminary stage and that a Government position is yet to be taken regarding proposed shareholding structure.

(g) The Privatization of NKCC is being carried out with utmost transparency as laid down in the Privatization Act ,2005.

(h) The strategic investor envisioned in the shareholder structure proposal by the Privatization commission if agreed upon will be the anchor tenant in the new arrangement and shall inject the much needed capital alongside providing the best practices in the dairy industry.

(i) When a company is on receivership the rights to own shares by the original shareholders ceases.

(j) There is need to investigate the circumstances that led to changes in shareholding structure when the company was in receivership.

(k) Investigation should be carried out to ascertain the value of KCC before being but on receivership. The receiver manager should provide information on the valuation of KCC at the time of receivership.

(l) The National Government shall ensure that, the manner in which the privatization of NKCC will be undertaken shall guarantee that the dairy industry will continue to be strong as it learns from the past mistakes.

(m) The Ministry of Agriculture ,Livestock and Fisheries has fears that collapse of the NKCC may result to monopoly in the market.

3.4 Submission by the Cabinet Secretary the National Treasury

Appearing before the Committee on 16th April ,2015, Mr. Henry Rotich, the Cabinet Secretary the National Treasury made the following submissions:

(a) That, in 2005 as result of uncoordinated and haphazard Privatization of State owned assets the Parliament of Kenya passed the Privatization Act , 2005 which in essence is geared at guiding the process of privatization of state owned Corporations. This law is being used in the proposed privatization of NKCC

(b) The NKCC is 100% owned by the GOK and is held on behalf of the Kenyans. The shareholding of government through the National Treasury is 199 million shares

(h) That, NKCC is professionally managed and has posted profits annually and therefore does not require a strategic partner

(i) That the GOK considers writing off the farmers debts in the company like it had done with other farmers organizations in order to assist the milk farmers recover economically.

4.0 COMMITTEE OBSERVATIONS

Having held meetings and considered the submissions presented on the petition, the Committee observed that:-

(a) Kenya Cooperative Creameries Limited was incorporated as a Public Limited Liability Company under the Companies Act (Cap486) on 22nd August 1925 and registered under the Cooperative Societies Ordinance in 1932. The objectives was to receive and process raw milk from the members into various products and market them on their behalf.

(b) The giant farmers Co-operative Society ran into insolvency and thereafter receivership in the 1999 over a Kenya Commercial Bank (KCB) debt of Kshs 400 million hence the original KCC was sold under unclear circumstances at throw-away price to private entrepreneurs who re-named it KCC2000. The NARC Government reclaimed the Company through an Executive Order and rebranded it NKCC on 25th June 2003 after paying Kshs 547 million to KCC2000 entity. The NKCC has been in existence for the last 13 years.

(c) A Register showing the original Shareholders of KCC is available contrary to the claims by Privatization Commission of Kenya (**Annex 3**).

(d) The Shareholding structure of KCC prior to receivership (1999) was as follows:

Individual Diary farmers	-	60.38%
Dairy Cooperative societies	-	35.56%
Government institutions	-	3.70%
Other Institution	-	0.34%

(e) Privatization Process of the NKCC began in 2010 with the objectives of addressing future governance and sustainability of NKCC operations and improve its competiveness.

(f) Privatization Commission through the following consortium of consultants undertook due diligence and options analysis in the privatization of NKCC.

    (i) Standard Investment Bank Ltd;

(m) The Privatization Commission Report **(Annex 4)** proposes a new Shareholding structure as follows:

Eligible milk producers	39%
Strategic Partner	26%
The Public through Securities Exchange	25%
Employee Ownership Plan	3%
Government	10%

(s) Privatization Commission proposes that farmers be given a three year period to allow them adequate time to purchase shares as per agreed Shareholding structure. Milk Farmers to be supported through Cooperative Societies to create a "vehicle" to be used to mobilize resources.

(t) There is need to avoid any action that appears to lift the receivership as other interested parties could easily launch a claim on the current value of NKCC.

(u) The GOK in 1999 instituted an Inquiry on the operations of Kenya Co-operative Creameries Limited (KCC) which was chaired by Mr. Stephen Kirugi , a former deputy Commissioner Cooperatives. The Team presented the final report **(Annex 6)** to the Former President H.E Daniel Torotich Arap Moi ,EGH, CGH on August 1999. The Team's Terms of Reference for the inquest was the following:-

1. Establish the correct Financial Status of KCC Ltd and make appropriate recommendation to address the problem in order to revitalize the company;
2. Establish the indebtedness of KCC Ltd to Milk Farmers ,Raw Milk transporters ,Suppliers and Members of its staff ;
3. Establish the indebtedness of Board of Directors and Staff of KCC Ltd to organization since February 1996 ;
4. Examine Procurement Procedures for goods and services by KCC Ltd and determine whether they have been followed ;
5. Do an Inventory of all KCC Ltd assets and make necessary comments and recommendation; and
6. Investigate any other matter that had led to poor services to the Milk farmers by KCC Ltd.

(p) The Kirugi Commission of Inquiry Report **(Annex 6)** documents the followings as the key findings among others :

5. MOTOR VEHICLES AND OTHER IMMOVABLE ASSETS

The KCC Motor vehicles and Immovable Assets including Land & Buildings were disposed in an unprocedural manner through verbal instruction from the Former Managing Director Mr. Justry Lumumba Nyaberi. The tender processes were circumvented to assist the former Directors and the Former Managing Director to acquire many of the KCC assets either directly or through proxies like spouses **See Report (Annex 6), Pg 50 & 60**

6. MILK COLLECTIONS ,PROCESSING AND MARKETING

Although KCC had an installed processing capacity of 1.8 million kgs per day, it started experiencing reduction in Milk collection in 1995. The total milk collection in 1995 was 213 million Kgs however by 1998 KCC could only collect 20 million Kgs per year. The downward trend was mainly contributed to non-payment of dues to Milk farmers who supply Raw milk. The mismanagement of the company by Former Board of Directors and Management also resulted in the inability of the KCC to meet daily financial obligations hence rendering the company inefficient and ineffective **See Report (Annex 6), Pg 79**

5.0 COMMITTEE RECOMMENDATIONS

In response to the Petition prayers, the Committee recommends that

1. The Criminal Investigation Department (CID) and Ethics and Anti Corruption Commission(EACC) should investigate all former Board of Directors, Managing Directors and Staff of KCC who were mentioned in the Kirugi Commission Inquiry Report **(Annex 6)** with a view of prosecuting all culpable persons and reposes all KCC Assets that were irregularly acquired by individuals.
2. There exists a register of all original shareholders of the KCC **(Annex 3)**.Therefore the National Government should first consider the original shareholders of KCC or their assignees in the process of privatizing the NKCC.
3. The Ethics and Anti Corruption Commission should investigate Ms Regent Valuers Int Ltd , a firm contracted by Privatization Commission to undertake valuation of NKCC with a view of establishing its relationship with KCC2000 and whether conflict of interest exist since the firm carried out valuation of KCC Assets during the period(1999) when KCC was in receivership.

Annex 1	- Copy of the Petition by the Stakeholders of Kenya Cooperative Creamers (KCC) on the imminent Privatization of KCC
Annex 2	- Minutes of the Committee Sittings
Annex 3	- Letter from former Permanent Secretary in the Ministry of Cooperatives Mr. Benjamin Sogomo
Annex 4	- Copy of the Register of the Original Shareholders of KCC
Annex 5	- Copy of the Final Update Options Analysis
Annex 6	- Report on the Inquiry on the Kenya Cooperative Creamers (KCC) by Kirugi Presidential Commission

ANNEX 1

Paper Laid by Hon. Joyce Laboso, EGH, MP on 22/10/2014

Approved

355

22/10/14

PUBLIC PETITION

BY MILK FARMERS REPRESENTATIVES

ON

THE IMMINENT PRIVATIZATION OF THE NEW KENYA CO-OPERATIVE CREAMERIES (KCC)

I, THE UNDERSIGNED, on behalf of milk farmers' representatives from across the country,

DRAW the attention of the House to the following;

i) THAT, aware that the Kenya Co-operative Creameries (KCC) was established in 1925 to enable milk farmers to market their produce and grow their savings;

ii) THAT, the majority stake in the original KCC is held by small scale farmers and estimated at a net worth of five billion Kenya Shillings;

iii) NOTING, that a conspiracy of mismanagement allegedly plunged the giant farmers' co-operative society into insolvency and thereafter receivership in the late 1990's;

iv) THAT, KCC was to sold under unclear circumstances at throw-away price to private entrepreneurs who re-named it KCC 2000, before the NARC Government reclaimed it and rebranded it New KCC on 25th of June 2003;

v) THAT, the change in ownership of the original KCC to KCC 2000 and later to New KCC did not conclusively determine, address and protect the rights and shareholding of farmers in the society

vi) THAT, the Government is at an advanced stage of privatizing the New KCC through an Initial Public Offer of shares at the Nairobi Securities Exchange in a formula that allocates an insignificant 31% of shareholding to farmers who are the majority stakeholders, and 10% to the Government;

vii) THAT, aware that if the planned privatization of the New KCC proceeds without safeguarding the rights of farmers, they risk permanent loss of their hard earned stakes worth billions of shillings in the society by ceding 59% shareholding to private investors;

TABLE OFFICE
S/No.
22 OCT 2014
Sign.
PAPER LAID

PETITION BY MILK FARMERS REPRESENTATIVES ON THE PRIVATIZATION OF THE NEW KCC

- Dairy farmers – 85% through their Apex Cooperative Society
- Government – 10%
- Employees of the company – 5%

3. Urges the Cabinet Secretary for the time being responsible for Cooperatives to ensure compliance with the provisions of section 29 of the Privatization Act and subsequently limit eligible investors to Dairy Farmers groups and individual Dairy Farmers supplying milk to the company and ensure that funds from privatization of the New KCC are channeled towards developing the Kenyan dairy industry.

And your PETITIONER will ever pray.

Signature...

Date....22 | 10 | 2014..........................

PRESENTED BY

HON. (DR.) JOYCE LABOSOS, MGH, M.P.

DEPUTY SPEAKER AND MEMBER OF PARLIAMENT FOR SOTIK CONSTITUENCY ON BEHALF OF THE FOLLOWING PETITIONERS BEING FARMERS REPRESENTATIVES ON PRIVATIZATION OF NEW KCC

No.	Names	Full Address	National ID	Signature
1.	Philip Kipkorir Bitok	P.O. Box 1615 -30100 Eldoret	3312628	
2.	Jonah Tonui	P.O. Box 270-20203 Londiani	4846957	
3.	Lydia N. Kagema	Box 1319, Nyeri 10100	1825123	
4.	Muchemi Ndiritu	29 Kaleho	098592	
5.	Michael Gitonga Njeru	61 Runyenjes Embu	23143000	
6.	Eng. Jan Mutai	P.O. Box 164-30302 Lessos	4590554	
7.	Dr. Samson Muttai	P.O. Box 600 Eldoret	0773202	

REPUBLIC OF KENYA

PARLIAMENT

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National Assembly
Parliament Buildings
P.O.Box 41842 00100
Nairobi, Kenya

OFFICE OF THE DEPUTY SPEAKER NATIONAL ASSEMBLY

RECEIVED
DIRECTORATE OF LEGAL SERVICES
NATIONAL ASSEMBLY
DATE RECEIVED 26.8.2014
NAME
TIME RECEIVED 4.12 P.M
SIGNATURE

26th August 2014

The Director,
Legal Services,
National Assembly
Nairobi

Dear Sir,

RE: PRIVATIZATION OF THE NEW KCC

This letter is in reference to our earlier conversation concerning KCC. Attached herein please find the list of KCC suppliers, the minutes and the Parliamentary Questions for your necessary action

Yours Sincerely,

HON. DR. JOYCE LABOSO, MGH, M.P,
DEPUTY SPEAKER OF THE NATIONAL ASSEMBLY

Mr Muoure LC
please deal
with
26/08

Dly

Meeting of the Farmers Representatives on Privatization of New KCC held on 28th May 2014 in Kenya Dairy Board's Boardroom at NSSF Building

1.0 Members present

1. Philip Kipliorir Bitok - 0720-682878 – Chairing
2. Abraham Rugutt - 0721-414775
3. Jonah Tonui - 0721-217218
4. Hon. Joel Barmasai - 0722-788850
5. Lydia N. Kagema - 0721-344479
6. Muchemi Ndiritu - 0724-355035
7. Michael Gitong Njeru - 0720-392716
8. Kipkorir Arap Menjo - 0722-748248
9. David Kingori Njogu - 0723-271862
10. Eng. Jan Mutai - 0722-310094
11. Dr. Samson Muttai - 0722-250363
12. Lt. Gen. A. K. Arap Cheruiyot - 0722-717128
13. Timothy K. Tororei - 0722-268046– Taking Minutes
14. Mrs. Alice Chesire - 0722-772920
15. Hon. Matu Wamae - 0722-752750
16. Philip .K Cherono - 0725-702595

2.0 Agenda

2.1 Gathering of information on the ownership of New KCC.

5.6 - The meeting resolved that, Kenya Dairy Board contacts Price Waterhouse Coopers and any other person/institution that may possess this information.

5.7 - It was noted, that as at its collapse, the share capital of KCC was as follows:

Individual dairy	-	60.38%
Dairy Co-op Societies	-	35.56%
Govt. Institutions	-	3.7%
Other Institutions	-	0.34%

5.8 - Documents presented indicated that, in 2003 the Government repossessed KCC with the intension of transforming it to a State Corporation inorder to give farmers time to organize themselves in readiness to takeover. Further, farmers are willing to refund Government the KShs. 547 Million which was paid to KCC holdings/KCC 2000 Ltd. This spirit is in line with clause 18 Subsection 2 (f), Clause 24 Subsection (e) (f) and Clause 29 Subsection (2) of the Privatization Act, which goes a long way in achieving the aspirations of Vision 2030, Millennium Development Goals and the Jubilee Manifesto.

5.9 - The meeting resolved to assemble the following documents for presentation to Kenya Dairy Board for onward transmission to the Privatization Commission:

5.9.1 Parliamentary Hansard on budget statement by Hon. Mwiraria of 14/6/2003

5.9.2 KCC Dairy Famers Co-operative Society Ltd. Memorandum to privatization Commission.

5.9.3 Hon. Joseph Nyagah's presentation to the Privatization Commission on New KCC

5.9.4 Letter by Mr. Sogomo on Handing/taking over of KCC 2000 Holdings/KCC 200 Limited by New KCC.

Societies, Self Help Groups, and Community based organizations, Dairy Companies and individual farmers drawn from the entire country.

5.13 In conclusion, the Privatization of New KCC should be informed by the following factors:

5.13.1 **Political Factors**

5.13.1.1 Political good will as demonstrated by statements made by the H.E Hon. Mwai Kibaki, Hon Joseph Nyagah, Hon. Njeru Ndwiga, Hon. Kipruto Arap Kirwa and the aspirations of the Jubilee Manifesto.

5.13.1.2 There is precedence that, Government has extended substantial support to various farmer sub-sectors as follows:

a) Coffee Farmers
b) Maize Farmers
c) Beef Farmers
d) Kenya Meat Commission
e) Sugarcane farmers
f) Rice Farmers
g) Pyrethrum Farmers

It is therefore appropriate that, Dairy Farmers be considered in similar light. Noting unlike that all other Dairy Farmers have invested heavily in New KCC through capital development levies, that went into substantial base of New KCC.

5.13.2 **Economic Factors**

5.13.2.1 The aspirations of Vision 2030, Economic Recovery Strategy for Wealth and employment creation, Strategy for the Revitalization of Agriculture, Agriculture Sector Development Strategy and Millennium Development Goals.

5.13.3.3 Dairying is a major source of food and nutrition security for most Kenyans and this should be promoted.

5.13.3.4 Dairying is a source of insurance to Dairy farmers.

5.13.4 **Technological Factors**

5.13.4.1 Technology adoption is fully mature in Kenyan Dairy Enterprises and any needed technological input can easily be acquired by Kenyan Dairy Farmers or Entrepreneurs. There is therefore no justifiable need for a Strategic Investor as this may not be a value adding action.

5.13.5 **Legal Factors**

5.13.5.1 The proposed privatization of New KCC should take cognizance of provisions of the Privatization Act as stated in clauses 18, 24 and 29

5.13.5.2 KCC was acquired through executive order and not through an auction. The same order should be used to return it to the farmers, the original owners.

5.13.5.3 The Constitution of Kenya 2010 provides for the protection of the peoples' wealth as provided in article 40. The Government of Kenya has the responsibility to ensure that this is done to the Kenyan Dairy Farmer by ensuring that the New KCC is reverted back to farmers and not dispose it to profiteers.

Chairman.. Date...28/05/2014.........

Secretary.. Date...28/05/2014.........

2

1.0 KCC DAIRY FARMERS CO-OPERATIVE SOCIETY LTD.

2.0 MEMORANDUM TO THE PRIVATIZATION COMMISSION ON THE PROPOSED PRIVATIZATION OF NEW KENYA COOPERATIVE CREAMERIES LIMITED

3.0 PREAMBLE

In this preamble to our memorandum, we the dairy farmers who supply milk to New KCC aver that we are the key stakeholders in the dairy industry in Kenya and hereby make expression of interest to bid for purchase of New Kenya Cooperative Creameries Ltd., at this point in time when the company is on way to privatization.

Kenya Cooperative Creameries was incorporated as a limited liability company in 1925, although it had already been in operation for several years. It was then known as Cooperative Creamery Limited. The first creamery was opened in 1926 at Naivasha. In 1931, it matched with Kipkelion Creameries and changed its name in the year 1945 to Kenya Cooperative Creameries Ltd. It was placed under receivership in 1999 by the debenture holders; Commercial Bank.

The company started with one dairy processing plant in Naivasha and as at today we have eleven (11) factories, eleven (11) milk cooling plants, eight (8) sales depots and over sixty (60) satellite coolers country wide.

By 1999 before the company was placed under receivership the Kenya dairy farmers countrywide owned this company by virtue of shares they paid through capital development levy from the milk delivered and up to today they still have the share certificate; even though they were not paid for several month's milk delivered before collapse of KCC in 1999. This is a phenomenon that even escalates their push for ownership through a majority shareholding arrangement of 85% so that they could recoup their past losses.

In the year 1999, Kenya Commercial Bank appointed a Receiver Manager; Price Water-House Coopers who sold KCC to KCC Holding/ KCC 2000 at Kenya Shillings Four Hundred million (Kshs. 400 million) only whereas the value of KCC at that time was over Kshs. 6 billion.

employees of NKCC, all directly but not through the IPO (Nairobi Stock Exchange). AT ALL

(iii)**Request** Privatization Commission to make reference

(a) To the Government Statement (budget speech) by the former Minister for Finance Hon. David Mwiraria on 14.6.2003.

(b) To the Letter of the Permanent Secretary Ministry of Cooperative Development, Mr. Benjamin K. Sogomo O.G.W Ref No. MCD/S/AGR/11/7 of 24th June, 2003.

(c) To refer to recommendation by the Minister of Co-operative Development Hon. Joseph Nyagah EGH, MP presentation to the Privatization Commission on New KCC as per the attached copy.

(e)**Request** that the tenure of office of the current Directors be extended until the privatization exercise is consummated for the following reasons;

- They have abundant knowledge and experiences of the challenges facing NKCC: past and present.
- They supported the course for privatization of New KCC hence their continuity in overseeing it until the final conclusion is of essence.
- Since repossession of KCC holding / KCC 2000 and upon emergence of NKCC in the year 2003 they have been instrumental in making it vibrant.

5.0. NKCC PRIVATIZATION OPTION

Broad Policy Objective

To empower small holder farmers who are the backbone of the Dairy industry in Kenya by ensuring that they purchase the company based on requested shareholding structure of 85%, directly and not through the IPO (Nairobi Stock Exchange) AT ALL.

6.0 INTENDED PRIVATIZATION OF NKCC

We are aware of the Government's intention to privatize New Kenya Cooperatives Creameries Limited (NKCC) and the task is now in the hands of the Privatization proprietary rights and or law. The law does not allow punishment twice for a mistake already punished.

6.0.6 The dairy farmer continues inputting into the dairy value chain and by extension subsidizes diverse institutions and by all fairness must be given the first priority in the privatization arrangement. That would be a significant gesture by Government.

6.0.7 In order to sustain competitiveness in the dairy industry, the Dairy farmer needs to have the controlling shares in the company and this need be considered critically in the privatization arrangement.

6.0.8 We the Dairy Farmers urge Government to show utmost goodwill and good faith and ensure the following;

- Goodwill and good faith in empowering the Dairy farmer in the privatization of NKCC.
- Avoid putting conditions that are likely to hinder the dairy farmer from buying shares
- Ensure putting in place achievable mode of buying shares by the dairy farmer
- Ensure equity in dealing with purchase of shares by the dairy farmers at large.

6.0.9 We the Dairy farmers wish to purchase shares as **individual, corporate, cooperative societies, dairy companies, milk community based organizations and self help dairy groups provided they supply milk to the processor** – NKCC.

6.10 We the Dairy farmers need to be allowed to build our shares, over time through agreed deduction of Kshs. 1 per kg of milk delivered to NKCC, upon government's acceptance of the arrangement.

6.11 Our ability to pay NKCC shares is based on the latest delivery of 300,000 kgs of milk per day valued as follows:

300,000 kgs x kshs 1 x 30days = Kshs 9m x 12 months = Kshs 108m p.a.

8.0.3 We the Dairy Farmers continue to consider government as a strategic partner in the industry in the context of food security, regulations, stability, policy making, marketing, protection and security in general hence should continue with that responsibility without necessarily owning shares in NKCC.

8.0.4 Appreciate the commitment in the Privatization Commission's charter to the stakeholders in public institutions identified for privatization to engage in consultations to ensure inclusiveness in the privatization process and ownership of NKCC.

9.0 This memorandum, duly executed by bonafide representatives in the dairy sub-sector, this................day of .... was arrived at through wide consultative forums and plat form of the dairy industry related players; milk producers, agricultural marketing cooperative societies, agricultural marketing unions, dairy producing companies and milk self help groups, large and small scale individual farmers in the Republic of Kenya.

We hereby execute by appending our signatures as follows;

Name	Title	Sign
Philip Bittok	Chairman	....
Lydia Kagema	Treasurer	....
Timothy k. Tororei	Secretary	....

Witnesseth by:-

1. Michael G. Njeru	vice chairman	....
2. Muchemi Nderitu	vice secretary	....

NB: Appended are the details of officials elected in a National Dairy Forum at Nairobi on 9th January, 2014 to collect and collate Dairy farmers' views regarding intended privatization of NKCC and present the same in form of a memorandum.

#3

Hon. Joseph W. N. Nyagah, EGH, MP
Presentation to the Privatisation Commission on New KCC

The first co-operative society in Kenya was a dairy one at Kipkelion (Lumbwa), one hundred years ago. This society was the origin of KCC.

The history of KCC dates back to 22nd August 1925 when Kenya Co-operative Creameries Ltd (KCC) was incorporated as a limited liability company. The principal business of KCC Ltd was buying, processing and selling dairy products both in the domestic market and export market. The company started with only one factory in Naivasha but today has Eleven (11) dairy processing factories and Eleven (11) Cooling Plants. The growth was mainly achieved during the period 1966 to 1988. As at the time there was a lot of technical, technological and financial assistance from DANIDA. Besides the factory that was set up at Miritini to serve the coastal region, the rest of KCC factories and cooling plants exist in the medium and high potential parts of Kenya, where over 70% of the population lives and where poverty is prevalent. By 1987/88, KCC was selling 1 million litres per day with purchases from dairy farmers reaching a peak of 1.4 litres per day.

By 1992, the dairy industry was liberalized and other private processors came in. KCC was unable to reengineer/restructure operations or reduce high operating fixed costs. There were serious financial irregularities and procurement abuses due to lax management then. There were serious delays in payments to farmers and suppliers. KCC was now faced with very serious working capital constraints. The company resulted to huge

ANNEX 2

MINUTES OF THE 2nd SITTING OF THE DEPARTMENTAL COMMITTEE ON AGRICULTURE, LIVESTOCK AND COOPERATIVES (MEETING WITH HON. JOYCE LABOSO, EGH, MP ON KCC PETITION) HELD ON TUESDAY 3RD FEBRUARY, 2015 AT COUNTY HALL CHAMBERS, PARLIAMENT BUILDINGS AT 11.00 A.M.

Present

1. Hon. Adan M. Nooru, MBS, M.P - Chairman
2. Hon. Kareke Mbiuki, M.P
3. Hon. Benjamin Washiali, M.P
4. Hon. Mary Wambui, M.P
5. Hon. Phillip Rotino, M.P.
6. Hon. Alfred K. Keter, M.P
7. Hon. Patrick Wangamati, M.P
8. Hon. Daniel Maanzo, M.P
9. Hon. James Opiyo Wandayi, M.P
10. Hon. Millie Odhiambo - Mabona, M.P
11. Hon. John Kobado, M.P
12. Hon. Kabando Wa Kabando, M.P.
13. Hon. John B. Serut, M.P
14. Hon. (Dr.) Victor Munyaka, M.P
15. Hon. Paul Simba Arati, M.P
16. Hon. Maison Leshoomo, M.P
17. Hon. Zuleikha Hassan Juma, M.P

Apologies

1. Hon. Kimani Ichung'wah, M.P
2. Hon. Florence Mutua, M.P
3. Hon. Peter N. Gitau, M.P
4. Hon. Silas Tiren, M.P

Absent

1. Hon. Fredrick Outa, M.P
2. Hon. Hezron Awiti Bollo, M.P
3. Hon. Waititu Munyua, M.P

II. If the planned privatization proceeds without safeguarding the rights of the farmers, they risk permanent loss of their hard earned stakes worth billions of shillings in the society by ceding 59% shareholding to private investors.

III. The right of farmers to retain their majority stake can only be protected through a proposed privatization structure that would give farmers 85%, the Government 10% and staff of the company 5% shareholding in the company.

IV. The Petitioners pray the Departmental Committee on Agriculture, Livestock and Cooperatives intervene and urge the Privatization Commission to ensure sustainable transfer of ownership of the new KCC to Kenyan dairy farmers in accordance shareholding structure proposed by the farmers rather Than through the Nairobi Securities Exchange.

Min. 08/2015: Committee Observation

The Committee observed the following;

I. The Government possessed KCC through an executive order with the intention of salvaging the interest of the farmers hence should return it back to the farmers.

II. KCC is owned by Farmers and the ownership should be officially formalized.

III. The Government can take its fair share and the rest should be given back to the farmers.

IV. The Management of KCC, the Ministry of Industrialization and Enterprise Development and the Treasury will be invited to shed light on the matter.

Min. 09/2014: Adjournment:

The meeting was adjourned at 13.20 hours till 15.00 hours in the afternoon.

Signature ....

HON ADAN MOHAMEDNOORU, MBS, M.P.

(Chairman)

Date..

MINUTES OF THE 23rd SITTING OF THE DEPARTMENTAL COMMITTEE ON AGRICULTURE, LIVESTOCK AND COOPERATIVES (Meeting with Privatization Commission) HELD ON 16TH APRIL, 2015 AT SMALL DINING, PARLIAMENT BUILDINGS AT 10.00 A.M.

Present

1. Hon. Adan M. Nooru, MBS, M.P - **Chairperson**
2. Hon. Kareke Mbiuki, M.P
3. Hon. Justice Kemei, M.P
4. Hon. Mary Wambui, M.P
5. Hon. Phillip Rotino, M.P.
6. Hon. Daniel Maanzo, M.P
7. Hon. Paul Simba Arati, M.P
8. Hon. James Opiyo Wandayi, M.P
9. Hon. Patrick Wangamati, M.P
10. Hon. Raphael Letimalo, M.P
11. Hon. Kabando Wa Kabando, M.P
12. Hon. Maison Leshoomo, M.P
13. Hon. Silas Tiren, M.P
14. Hon. Korei Ole Lemein, M.P
15. Hon. Waititu Munyua, M.P
16. Hon. John B. Serut, M.P
17. Hon. Fredrick Outa, M.P
18. Hon. Ferdinand Wanyonyi, M.P
19. Hon. John Kobado, M.P
20. Hon. Florence Mutua, M.P
21. Hon. Ayub Savula Angatia, M.P.
22. Hon. Benjamin Washiali, M.P

Absent with Apologies

1. Hon. (Dr.) Victor Munyaka, M.P
2. Hon. Zuleikha Hassan Juma, M.P
3. Hon. Peter N. Gitau, M.P
4. Hon. Hezron Awiti Bollo, M.P
5. Hon. Kimani Ichung'wah, M.P
6. Hon. Millie Odhiambo - Mabona, M.P

II. The latest report of the Commission is a supplementary report to provide a final recommendation taking into account issues raised by farmers at a stakeholders workshop held on 15th May 2014.

III. The C.E.O tabled three (3) set of reports as follows.

   a) Initial reports finalized in 2010/2011 comprising the following;
      1. Final Financial and Operational Due Diligence Report (Nov 2010)
      2. Legal Due Diligence Report (Nov 2010)
      3. Environmental and Technical Due Diligence Report, Volume 1,2 & 3 (December 2010)
      4. Assets Valuation Report – by Regent Valuers Intl (K) Ltd (Aug 2010)
      5. Options Analysis Report (Feb 2011)
      6. Restructuring Report (March 2011)
   b) Updated reports submitted in February 2014 following appointment of a new Commission Board in September 2012 consisting of the following;
      1. Updated High Level Due Diligence Report (February 2014)
      2. Updated Options Analysis Report (February 2014)
   c) A supplementary report to the updated Options Analysis report submitted in March 2015 which took into account issues raised by farmers at the stakeholders' workshop held on 15th May 2015.

IV. The C.E.O informed the Committee that the supplementary report's conclusion states as follows:

   a) The original shareholders' residual value at receivership was negative
   b) Privatization is the only way of transferring shares to the milk farmers.
   c) The initial statement of Government of Kenya's intention to restore the company back to the milk farmers was never backed up by any technical strategy
   d) It would be very difficult to identify original shareholders and it would be technically and financially unjustified with possibility of creating other major problems.

V. The report revises the proposed shareholding to increase farmers shareholding to 10 percent as follows:

   a) Eligible milk producers 39%
   b) Strategic Partner 26%
   c) Public through Stock Exchange 25%
   d) 3% to be sold to staff through an Employee Share Ownership Plan
   e) Government 10%

19TH -22ND , MAY 2015
Visit to Galana/Kulalu Irrigation Project and Voi on the Disease free zone.
26TH TUESDAY ,MAY , 2015
10:30AM and 2:00PM Meeting with Kenya Planters Cooperatives Union on the removal of the Commissioner for Co-operatives Development. *Venue: To be Communicated* *(open)*
27TH WEDNESDAY , MAY 2015
10.30 A.M Adoption of the Report on the Petition regarding the Imminent Privatization of the New Kenya Co-operatives Creameries. *Venue: To be Communicated*

The Committee adopted program of business for the month of April/May as follows:

Min. 117/2015: Adjournment

Since no other business to discuss, the meeting was adjourned 12.18 P.M.

Signature ....

HON ADAN MOHAMED NOORU, MBS, M.P.

(Chairperson)

Date..

MINUTES OF THE 26thSITTING OF THE DEPARTMENTAL COMMITTEE ON AGRICULTURE, LIVESTOCK AND COOPERATIVES (Meeting with Stakeholders of Kenya Cooperative Creameries) HELD ON FRIDAY 8TH MAY, 2015 AT COUNTY HALL MINI CHAMBER, PARLIAMENT BUILDINGS AT 10.00 A.M.

Members present

1. Hon. Adan Mohamed Nooru ,MBS, M.P –Chairman
2. Hon. Kareke Mbiuki, M.P
3. Hon. Silas Tiren, M.P
4. Hon. Millie Odhiambo Mabona, M.P
5. Hon. Zuleikha Hassan, M.P
6. Hon. Benjamin Washiali, M.P
7. Hon. Kabando Wa Kabando, M.P
8. Hon. Simba Arati, M.P
9. Hon. Francis Munyua Waititu, M.P
10. Hon. Philip Rotino ,M.P
11. Hon. John Serut ,M.P
12. Hon. Korei Ole Lemein,M.P
13. Hon. Ayub Savula Angatia, M.P

Absent with Apologies

1. Hon. Patrick Wangamati, M.P
2. Hon. Maison Leshoomo, M.P
3. Hon. Mary Wambui, M.P
4. Hon. Raphael Letimalo, M.P
5. Hon. (Dr.) Victor Munyaka, M.P
6. Hon. Paul Simba Arati, M.P
7. Hon. Justice Kemei, M.P
8. Hon. James Opiyo Wandayi, M.P
9. Hon. Alfred K. Keter, M.P
10. Hon. Florence Mutua, M.P
11. Hon. Peter N. Gitau, M.P
12. Hon. Hezron Awiti Bollo, M.P
13. Hon. Kimani Ichung'wah, M.P
14. Hon. Fredrick Outa, M.P
15. Hon. Ferdinand Wanyonyi, M.P
16. Hon. John Kobado, M.P

Kenya National Assembly Secretariat

1. Mr. Benjamin Magut -First Clerk assistant
2. Mr. David K Ng'eno -Research Officer
3. Ms. Rose Ometere -Audio officer
4. Ms. Eva Karee -Sergeant at Arms

Min .125/2015: Preliminaries

I. The meeting was called to order at 10.10 a.m and prayers were said by Hon. Benjamin Washiali, M.P
II. The Chairman welcomed the members and the witnesses to the meeting and thereafter introductions were made.
III. The Chairman informed the members on the day's agenda and requested the presenters to be brief in their presentations.

Min. 126/2015: Presentations

a) New Kenya Cooperative creameries(NKCC)

The representatives of the New KCC informed the Committee that;

i. Government took over KCC in 2003
ii. The company is doing well and has made profits
iii. The company is paying farmers and employees
iv. The company is viable
v. The management of NKCC has never recommended privatization as alleged by privatization commission

b) KCC-Dairy Cooperative limited(KCC-DCL)

The representatives of KCC- Dairy Cooperative limited thanked the Committee and the government form the support they are extending to KCC and informed the Committee that:-

i. They hope the company would be returned to the farmers once it is stabilised
ii. Ksh. 525 million was lost by the farmers and they fear that if the company is not returned to the farmers, they stand to lose more.
iii. The farmers are in support of privatization.
iv. They propose that the company be privatised in the following structure:
    - Government - 10%
    - Employees - 5%
    - Farmers - 85%
v. They Propose that the membership of the company be as follows:

d) **Presentation by Cabinet Secretary, Ministry of Industrialisation and Enterprise Development**

i. NKCC is 100% owned by government
ii. Privatization is done transparently
iii. NKCC has financial problems
iv. Intention of government is to make dairy industry a prosperous one and that a strategic investor is the anchor tenant in that arrangement
v. There is need to identify the best way of having long term successful process
vi. Acknowledged historical background bedevilling KCC and said that resolution to it would be done with due diligence
vii.

e) **Presentation by Cabinet Secretary, National Treasury**

i. Privatization law is to be used to have government out of KCC
ii. There is a process to be used to take the company to the farmers
iii. There is need for a strategic person who would be providing strategic thinking to avoid legacy problems experienced before
iv. The ownership is still with the people and it would be given to them through a process.
v. The percentages of share distribution proposed by the Privatisation Commission are yet to be agreed upon
vi. Will take information available with due diligence with regard to legal position as at the time when KCC went into receivership
vii. Will provide cabinet position with clear solutions making use of wisdom from the past

f) **Committee Observations**

i. The ownership of KCC is critical. The list of farmers who owned need to be found
ii. Identity of KCC 2000 together with directors and linkage with government needs to be established. The identity of a body or person(s) paid half a billion shillings should be known also.
iii. Government took over KCC with intention of correcting the mess then returning it to the farmers vide a letter written by the permanent secretary but this was not the case.
iv. The value of assets bought by the government of six billion was far too below
v. The government to provide specific answers to issues raised in the petition
vi. Technical team in the privatization commission should declare their interest in NKCC

MINUTES OF THE 58TH SITTING OF THE DEPARTMENTAL COMMITTEE ON AGRICULTURE, LIVESTOCK AND COOPERATIVES (ADOPTION OF THE PUBLIC PETITION ON IMMINENT PRIVATISATION OF NEW KCC) HELD ON THURSDAY 15TH OCTOBER ,2ND FLOOR PROTECTION HOUSE PARLIAMENT BUILDINGS AT 10:30AM.

Present

1. Hon. Adan M. Nooru, MBS, M.P - Chairman
2. Hon. Kareke Mbiuki, M.P -Vice Chairperson
3. Hon. (Dr.) Victor Munyaka, M.P
4. Hon. Paul Simba Arati, M.P
5. Hon. John B. Serut, M.P
6. Hon. Florence Mutua, M.P
7. Hon. Maison Leshoomo, M.P
8. Hon. Patrick Wangamati M.P
9. Hon. Fredrick Outa, M.P
10. Hon. James Opiyo Wandayi, M.P
11. Hon. Silas Tiren, M.P
12. Hon. John Kobado, M.P
13. Hon. Ferdinand Wanyonyi, M.P
14. Hon. Peter N. Gitau, M.P
15. Hon. Phillip Rotino, M.P.
16. Hon. Alfred K. Keter, M.P
17. Hon. Waititu Munyua, M.P
18. Hon. Millie Odhiambo - Mabona, M.P
19. Hon. Raphael Letimalo, M.P
20. Hon. Justice Kemei, M.P
21. Hon. Hezron Awiti Bollo, M.P

Apologies

1. Hon. Kimani Ichung'wah, M.P
2. Hon. Ayub Savula Angatia, M.P
3. Hon. Daniel Maanzo, M.P
4. Hon. Mary Wambui, M.P
5. Hon. Korei Ole Lemein, M.P
6. Hon. Benjamin Washiali, M.P
7. Hon. Zuleikha Hassan Juma, M.P
8. Hon. Kabando Wa Kabando, M.P

Min.255/2015: Business Pending before the Committee

The meeting was informed that the following reports are ready but awaiting adoption:

a) Report on Public Petition by Nyeri County Coffee Farmers in the Matter of Production and Marketing of their Coffee and Payment of Dues owed to them
b) Report on Public Petition by Stakeholders of KCC in the Matter of Imminent Privatization of NKCC
c) Report on Public Petition by Stakeholders of KPCU KCC in the Matter of removal of the Commissioner Cooperatives
d) Report on Public Petition by Mr. Joseph Gachagua in the Matter of Election of the Chairman of ASK
e) Report on the Impounded Substandard Fertilizer at the Ports of Mombasa
f) Reports on the following Foreign trips.
   - Denver USA
   - Mauritius
   - Germany
   - France
   - Brazil

It was suggested that due to delays in the discussion of the report on Sugar Crisis on the floor of the house, the Committee should consider discussing the report without the final KMPG report in case there was further delay in the submission of the KPMG report by MSC Ltd.

Min.256/2015 Consideration and adoption of the Public Petition Stakeholders of KCC on Imminent Privatization of KCC.

In response to the above prayers, the Committee recommends that

1. The Criminal Investigation Department (CID) and Ethics and Anti Corruption Commission(EACC) to investigate all former Board of Directors, Managing Directors and Staff of KCC who were mentioned in the Kirugi Commission Inquiry Report **(Annex 6)** with a view of prosecuting all culpable persons and reposes all KCC Assets that were irregularly acquired by individuals.
2. There exists a register of all original shareholders of the KCC**(Annex 3)**.Therefore the National Government must first consider the original shareholders of KCC or their assignees in the process of privatizing the NKCC.
3. The Ethics and Anti Corruption Commission to investigate Ms Regent Valuers Int Ltd a firm contracted by Privatization Commission to undertake valuation of NKCC with

8. 4 ANNEX 3

MINISTRY OF CO-OPERATIVE DEVELOPMENT
Office of the Permanent Secretary

Telegrams: "CO-OPS" NAIROBI
Telephone: Nairobi 339650/9
When replying please quote

Ref No. MCD/S/AGR/11/7

RE-INSURANCE PLAZA,
TAIFA ROAD,
P.O. BOX 30547 - 00100
NAIROBI
24th June, 2003

Mr. Paul Odhiambo,
General Manager,
KCC 2000 Ltd,
P.O BOX 8953,
NAIROBI.

Dear Mr Odhiambo,

RE: HANDING/TAKING OVER OF KCC 2000 LTD. BY NEW KCC LTD. ON 25TH JUNE, 2003

The Government has decided to buy back the KCC 2000 Ltd and restore it to the farmers. Consequently the Ministry of Co-operative Development has registered the "New Kenya Co-operative Creameries Ltd" (New KCC Ltd) under the Co-operative Societies Act No.12 of 1997.

It has been decided that the New KCC Ltd takes over the Assets and liabilities of the KCC Holdings Ltd and KCC 2000 Ltd with effect from 25th June, 2003. You are, therefore, asked to hand over to Mr. Prudenzio Nicholas Gaitara who has been appointed as the interim General Manager of the New KCC Ltd.

Yours Sincerely

BENJAMIN K. SOGOMO O.G.W.
PERMANENT SECRETARY

ANNEX 5.

Highly Confidential

Updated High Level Due Diligence Report– Preparation Phase

NEW DRAFT
20 FEB 2014

CONTROLLED

with respect to

PRIVATIZATION OF NEW KENYA CO-OPERATIVE CREAMERIES LTD

for the

PRIVATIZATION COMMISSION – KENYA

prepared by

Consultant (SIB Consortium)

Led by STANDARD INVESTMENT BANK *simply, we are the standard*

revised report number:

NKCC/PRIV/DRAFT/UHLDD/JAN2014

20 February, 2014

DEFINITIONS & ABBREVIATIONS

Consultant	See SIB Consortium below;
GOK	The Government of the Republic of Kenya
GDP	Gross Domestic Product
Kshs	Kenya Shilling
NKCC, Company	New Kenya Co-operative Creameries Limited
NKCC Milk Producer	Dairy Farmers, and 'milk brokers' selling milk to NKCC;
PrivComm	Privatization Commission of Kenya;
SIB	Standard Investment Bank Limited;
SIB Consortium (SIBC) or Consultant	Standard Investment Bank Ltd, Deloitte Consulting Limited, Mboya and Wangongu Advocates, Mereka& Co Advocates, Clean Earth Ltd, and Regent Valuers International (K) Ltd

TABLE OF CONTENTS

CHAPTER 1

REPORT MILESTONES

The milestones leading up to the preparation of this report are as follows:

1.1 To assist the Privatization Commission in the privatization of NKCC, it engaged the services of a consultant, a transaction/privatization advisor, i.e. SIB Consortium led by Standard Investment Bank Ltd. PrivComm and the SIB Consortium subsequently entered into a contract on the 31st March 2010.

1.2 The following are the report milestones:

Table 1 - Report Milestones

No	Milestone	Date
1	Contract sign-off	31 March 2010
2	Kick-off meeting at NKCC	April 2010
3	Data room access commences	April 2010
4	Stakeholder consultations commences	April 2010
5	Asset registration & valuation commences	April 2010
6	Environmental due diligence commences	April 2010
7	Other due diligence commences	April 2010
8	Inception report	May 2010
9	First due diligence reports	July – November 2010
10	Asset valuation report	October 2010
11	Market research included in the financial and commercial due diligence report above, discussion paper below (no 12) and in Chapters 1 and 2 below in this report	November / December 2010
12	Privatization options discussion paper	November 2010
13	Restructuring report	December 2010
14	Legal, financial update reports and environment due diligence additional reports	December 2010
15	PowerPoint presentation on 'restructuring overview' including 'market read' and 'privatization options' to privatization committee	14 December 2010
16	PowerPoint presentation on 'market read overview', 'restructuring overview' and 'privatization options and recommendation' to the board members of PrivComm	16 December 2010
17	NKCC audited report full year to 30 June 2010	January 2011
18	Revised restructuring report	16 February 2011

CHAPTER 2

KENYA DAIRY INDUSTRY POTENTIAL

The following sets out the potential of the Kenya dairy industry which if it undergoes continuous transformation, it cancontribute to enhanced job creation and more significantly toGDP growth.

2.1 International Background

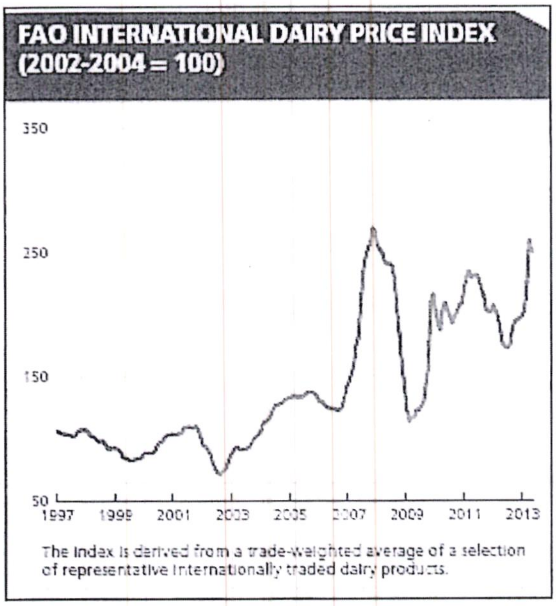


Figure 1 – FAO Index (source FAO)

International dairy products prices registered stronggrowth during the first four months of 2013, particularlyin March and April. Although prices fell back in May,they remained at elevated levels, substantially above ayear earlier. The main cause of the leap in prices wasa steep fall-off in New Zealand's milk production. TheFood Agricultural Organisation (FAO) Dairy Price Index reached 259 points in April, closeto its historic peak in late 2007, before dropping to 250points in May. The absence of substantial growth inmilk output in the principal exporting countries impliesthat supplies to the international market will be finelybalanced until at least the latter part of 2013, indicatingthat the current elevated prices are likely to remain forsome months.

World milk production in 2013 is forecast to growby 2.2 percent to 784 million tonnes – a similar rate torecent years. Asia and Latin America and the Caribbeanare expected to account for most of the increase, withonly limited growth elsewhere.

World trade in dairy products is expected to expandin 2013; however, supply limitations are anticipatedto stem growth. Consequently, trade is forecast toincrease by 1.9 percent, compared with an average of7 percent in recent years, to reach 54.7 million tonnesof milk equivalent. Asia will remain the main market fordairy products, accounting for some 54 percent of worldimports, followed by Africa, with 16 percent.

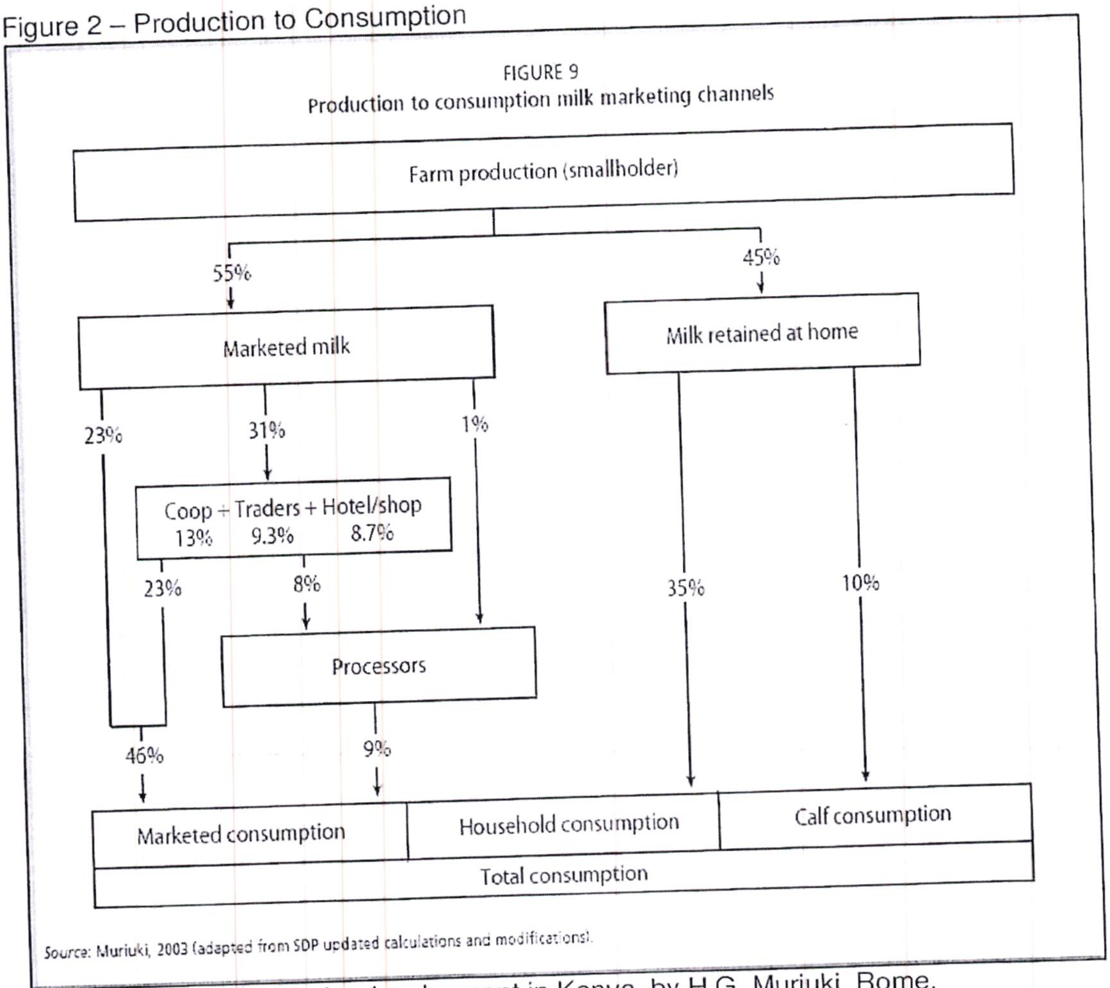
The forecast per capita consumption in developed countries was 238 kg/yr while developing countries was 75.9 kq/yr.

Source: FAO Report-Food Outlook-June 2013

2.2 Role of Dairy

Dairy's main role in Kenya's economy is its contribution to the livelihoods of the many people engaged throughout the value chain and to the nutritional well-being of many rural communities. Dairy has the potential to contribute more to national development goals.

Figure 2 – Production to Consumption



Source: FAO. 2011. Dairy development in Kenya, by H.G. Muriuki. Rome.

2.6 Milk Intake

The table below shows the milk intake in litres from year 2001 – 2012 i.e. from 152 million litres to 548 million litres (in 2011). This is 13.68% compounded annual growth rate. The intake for January – April 2013 is already 26% higher than the equivalent period in 2012. *Overall, there is potential for higher annual growth.*

See below.

2.11 **GDP Contribution**

Studies show that the GDP contribution of Kenya Dairy Industry is up to 8%. ***This GDP contribution is now significant by Kenyan standards and therefore this industry needs to be given more attention.***

2.12 **Privatization**

The dairy industry has had good development over the last few years but there is still significant potential. The sector can contribute much higher to GDP and needs to be supported by GOK with continuous structural, legal and regulatory reform.

KCC (2000), KCC Holdings and KCB would not have recourse against the Government or the Company since this has already been submitted to court and through the aforementioned court order, the matter, including any claim which should properly have been the subject matter of such suit, has been determined by court.

KCC (2000) Limited was incorporatedon 13th October 2000 under Certificate of Registration Number 91698. The shareholders of KCC (2000) Limited at the time of acquisition of the assets from the Receivers were Kenneth Kiplagat and Anthony Munge. The primary object of this entity was to prepare and make a bid for the purchase from Kenya Commercial bank, being the debenture holders and through the receiver manager, the assets of KCC Limited. The Company filed with the Registrar of Companies a special resolution unequivocally accepting the GOK offer to purchase all the assets of the Company at a total consideration of Kenya Shillings Five Hundred and Forty Seven Million Twenty Eight Thousand Eight Hundred and Seventy (Kshs. 547,028,870)(footnote 4 below).

On a perusal of the KCC (2000) Limited file at the Companies Registry, the Directors of the Company, Kenneth Kiplagat and Anthony Munge filed a Declaration of Solvency Embodying a Statement of Assets and Liabilities on Members, being a declaration for voluntary winding on the 22nd October 2004. We have not seen evidence of conclusion of the winding up process with the Registrar of Companies.

As regards the status of the original Kenya Cooperative Creameries Limited (incorporated in 1925), the file at the Companies Registry is missing though efforts to locate it were on-going. We could therefore not establish the subsistence of the Company. We cannot comment as to its existence, shareholding or of its the share capital. The only record pertaining to it is its registration number, which is No. 1/25, being that of a public Company. We have, however, seen a copy of a Gazette Notice No. 1756 noting a winding up order. It is stated in the Gazette Notice that the petition for winding up was presented on 12th February 2002 and the order was issued on 4th March 2003. The effect of a winding up order by the court is that no action or proceeding can be proceeded with or commenced against the company except by leave of the court and subject to such terms as the court may impose (footnote 5 below).

When theaffairs ofacompanyhave been completelywoundup,thecourt makes anorderthat thecompanybedissolvedfromthedate oftheorderand thecompanyisdissolved accordingly and itisatthis point that theCompanyisstruck offfrom theregisterofcompanies.Wehave notseenanyGazetteNotice tothiseffectand cannotcommentastowhethertheCompanyhas beenstruck offfromtheRegister or not.

Footnotes:

1 This is obtained from the agreement between KCC, KCB and KCC 2000 dated 12th April 2001.

2 None of the titles we have inspected have any such transfer registered against the property. The vesting order we have seen does not make mention of any such registration either.

3 However Section 4 of the Limitation of Actions Act, provides that an action founded on contract may only be brought before the expiration of six years from the date on which the cause of action accrued while an action founded on tort may only be brought before the expiration of three years.

4 This explains the nominal share capital of New KCC at incorporation.

5 Section 228 and 229 of the Companies Act, Cap 486 of the Laws of Kenya.

3.2 **Corporate Status**(footnote 6 below).

The Company was incorporated as a private company limited by shares under the Companies Act (Cap 486, Laws of Kenya) on December 19, 2004 under the name New Kenya Cooperative Creameries Limited. We have seen the Certificate of Incorporation bearing Company No. C. 113538.

On 27th June 2007, the Company altered its memorandum by inserting the following object:"to acquire the business of New KCC Limited (the Co-operative society) and to take over all its assets and liabilities the business, control and management and all engagements as acquired between 24th June 2003 and 18th November 2004"

3.4 Selected Key Articles

From the Memorandum and Articles of Association:

3. The Company is a private company and accordingly: -
   - (a) The number of members of the Company (exclusive of persons who are in the employment of the Company and of persons who, having been formerly in employment of the Company while in such employment and' have continued after determination of such employment to be members of the Company) is limited to fifty (50); provided that where two (2) or more persons hold one (1) or more shares in the Company jointly, they shall, for the purpose of this Article, be treated as a single member;
   - (b) Any invitations to the public to subscribe for any shares or debentures of the Company is prohibited;
   - (c) The Company shall not have power to issue share warrants to bearer;
   - (d) The right to transfer shares is restricted in the manner hereinafter provided.

12. Subject to any direction given by a resolution of the company in a General Meeting and the provisions of these Articles, the shares shall be at the disposal of the Board, and it may allot, grant options over or otherwise deal with or dispose of them to such persons as shall qualify as prescribed hereinafter, at such times and generally on such terms and conditions as it thinks proper, but so that no shares be issued to a discount, except in accordance with Section 59 of the Company's Act.

13. Subject to clause 12, the Board may allot, grant options over or otherwise deal with or dispose shares to the following qualifying persons subject to the terms and conditions as shall be prescribed by the a resolution of the company in a General meeting.
    a) The Government of Kenya
    b) Individual large scale dairy farmers as shall be determined by the Board from time to time.
    c) Registered dairy Co-operative Societies
    d) Registered dairy self help groups

3.5 Governance, Directors

Article 123 in the Memorandum and Articles of Association shall develop Charters and Codes of Conduct and adopt relevant principles to ensure Good Corporate Governance.

TheArticles providethat theBoard ofDirectorsistobemadeupofaminimumoftwo(2) and amaximumoften(10)Directorswho aretobeelected every two years atanAnnual GeneralMeetingtoserve foratwoyearterm. Thereisnoshareholdingrequirementforthe directors.

Majority of the directors are independent.

Property Restructuring Plan is required as part of the privatization implementation.

3.7 **Vehicles**

The Company owned 205 vehicle of which log books for 41 were held by a law firm as there was some dispute between the Company and the law firm.

3.8 **Intellectual Property**

The Company had 19 trademarks registered in its name. Most of these trademarks were registered under the name of the New KCC. We had, however, seen a Certificate of Change of Name in respect of Trademark No. KE/T/1962/011092 registered in Class 32 Schedule III. This trademark was originally registered under the name of KCC Limited. Legally, there was no change of name that took place and New KCC is a separate legal entity from KCC Limited. The Certificate of Change of name is therefore incorrect and did not confer title to New KCC. The proper process would have been for KCC (whether directly or through the receiver) to enter into an assignment of the trademark to New KCC.

3.9 **Insurance Policies**

We hadseen various insurance policies for the Company. These insurance policies wereexpired or about to expire. . We had also noted that public liability insurance is set at Kshs 10,000,000 for any single event and Kshs 20,000,000 for all events in any one insurance period. Given the nature of the product being processed by the Company, there was great risk of public liability risks from spoilt or contaminated products. Indeed, we had seen litigation to this effect in some instances. Consideration should be given to increasing the limit under this insurance cover pursuant to adequate industry research on acceptable limits.

3.10 **Compliance and Licensing**

The Dairy Industry Act under Section 32 requires any person carrying out business of a primary producer to be registered. The Act makes it an offence under Section 33 for any person who carries on the business of a primary producer without being registered. Regulation 3 of the Dairy Industry (Sale by Producers) Regulations makes provision for application of the following licences:

a. Primary Producer's licence
b. Processor licence;
c. Mini dairy licence;
d. Cottage industry licence;
e. Milk bar licence; and
f. Cooling plant licence.

Central management of compliance issues will be critical to ensuring timely and comprehensive adherence to licensing requirements.

We noted that the nature of the business of the Company also requires Occupation Safety and Health Certificates, Foods and Chemical Substances Certificates as well as Effluent Discharge Licences.

We cannot, therefore, comment on the provisions of these licences especially as regards transferability or assignability should the chosen privatization model be that of sale of business. If these licences are not assignable, then should a sale of business be proposed, then fresh application for the said licences must be obtained.

3.11 **Borrowings**

We sighted a number of loan offer letters and noted the legal charges and debentures, of which some need documentation clean-up.

		Rule 18 of these Rules provides that no person may carry on or be engaged in the business of a purveyor of milk without first being licensed as such. A purveyor is defined as "any person, other than the government, in possession of a dairy or who sells milk or conveys milk for purposes of sale…". Section 135A of this Act gives the Local Authorities power to make by-laws for the following purposes: • Regulating, supervising and licensing purveyors of milk; • Regulating, inspecting, supervising and licensing dairies; • Certifying the quality of milk.
3	Local Government Act Cap 265	Originally, Section 201 of the Local Authorities Act gave local authorities powers to make by-laws in respect of all such matters as are necessary or desirable for the maintenance of the health, safety and well-being of the inhabitants of its area: Such by-laws include the power to register purveyors, dairies etc. We expect this to continue under the new devolved structure.
4	Occupational Safety and Health Act, 2007	Section 44 of this Act provides that before any person occupies or uses any premises as a workplace, he must apply for the registration of the premises. This application is made to the Director of Occupational Safety and Health Services. A certificate of registration is then issued. A person who occupies a work premises without having first registered, commits an offence. Such premises will include a dairy, a processor plant, cooling plant etc.
5	Standards Act Cap 496	Section 9(2) provides that where a Kenya Standard has been declared, the Minister shall prescribe a date after which no person shall manufacture or sell any commodity, method or procedure to which the relevant specification or code of practice relates unless it complies with that specification or code of practice.
6	Food, Drugs And Chemical Substances Act, Cap 254	Section 27 establishes the Public Health (Standards) Board, which has the power to make regulations respecting the carriage of goods including the licensing of vehicles used in such carriage.

There are references to 'Kenya Co-operative Creameries Ltd' in legislation which for administration purposes can be replaced with 'New Kenya Co-operative Creameries Ltd'.

1	Under Regulation 3 of the Dairy Industry (Carriage of Milk) Regulations, no person may carry or permit any milk to be carried in a prescribed area except under the authority of, and in accordance with a permit issued by the Kenya Dairy Board or by some person authorised in writing by the Board in that behalf. Under Order 3 of the Orders to the Regulations 3 above, no permit is required for the carriage of milk- (a) **by Kenya Co-operative Creameries Limited**, in its own vehicles or in vehicles under its control.

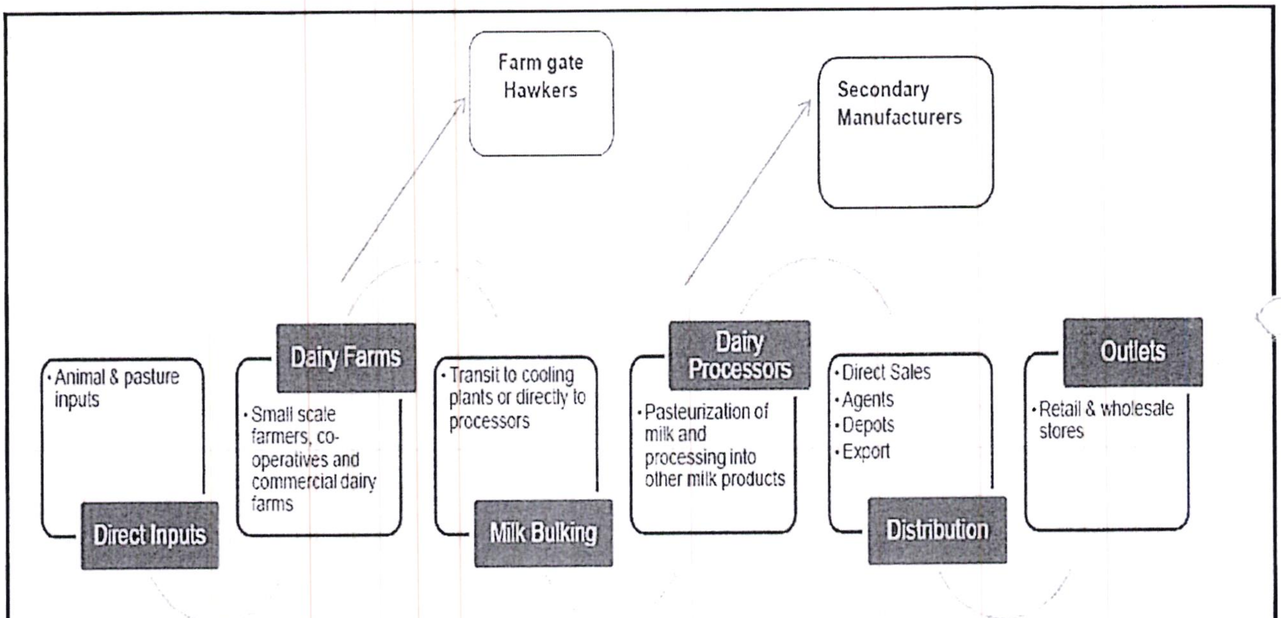
CHAPTER 4

COMMERCIAL &FINANCIAL HIGHLIGHTS

This following is an extract from the commercial and financial due diligence reportdated 26 November 2010 (182 pages), recent updates and is subject to further updates.

4.1 Kenya Dairy Industry Value Chain

Diagram 1



Direct Inputs
These include:

- Artificial Insemination (AI);
- Feeds;
- Veterinary services;
- Heifers;
- Extension services;
- Testing services; and
- Animal health products.

Dairy Farms
These include

- Small scale farmers;
- Large scale farmers;
- Traders; and
- Co-operatives or self help groups.

Milk Bulking

- Milk is tested for quality after delivery;
- It is then placed in a cooling tank to reduce its temperature; and
- Dispatch to processors and transport to chilling or processing plant.

Dairy Processing

- Milk is pasteurised and packaged as liquid 'fresh' milk or treated at UHT for long-life milk;
- As well as being pasteurised, the milk is partially skimmed and homogenised; and
- This enables the processor to use the cream that is removed for making butter and other high value products. The result is that processed milk has lower average butterfat content.

Distribution

- Informal: a number of brokers and hawkers;
- Formal: a number of agents and distributors;
- Milk is distributed to kiosks, stores, supermarkets;
- Producers and transporters
- Sometimes sell milk directly to end consumer; and
- Long-life milk is distributed to rural areas and for export to Uganda and Tanzania.

4.2 Products

NKCC's product mix include: KCC Fresh milk; KCC Gold Crown; KCC UHT Long Life milk; KCC Butter; KCC Mala –fermented milk; KCC Delight – yoghurts; KCC Ghee; KCC Cheese; KCC Shakes –long life flavoured milk; and Safariland Milk Powder– (whole & skimmed). These products are sold in packaged sizes and priced differently depending on the size and the market segment. The pricing is also dependent on the cost of production especially the cost of purchasing inputs.

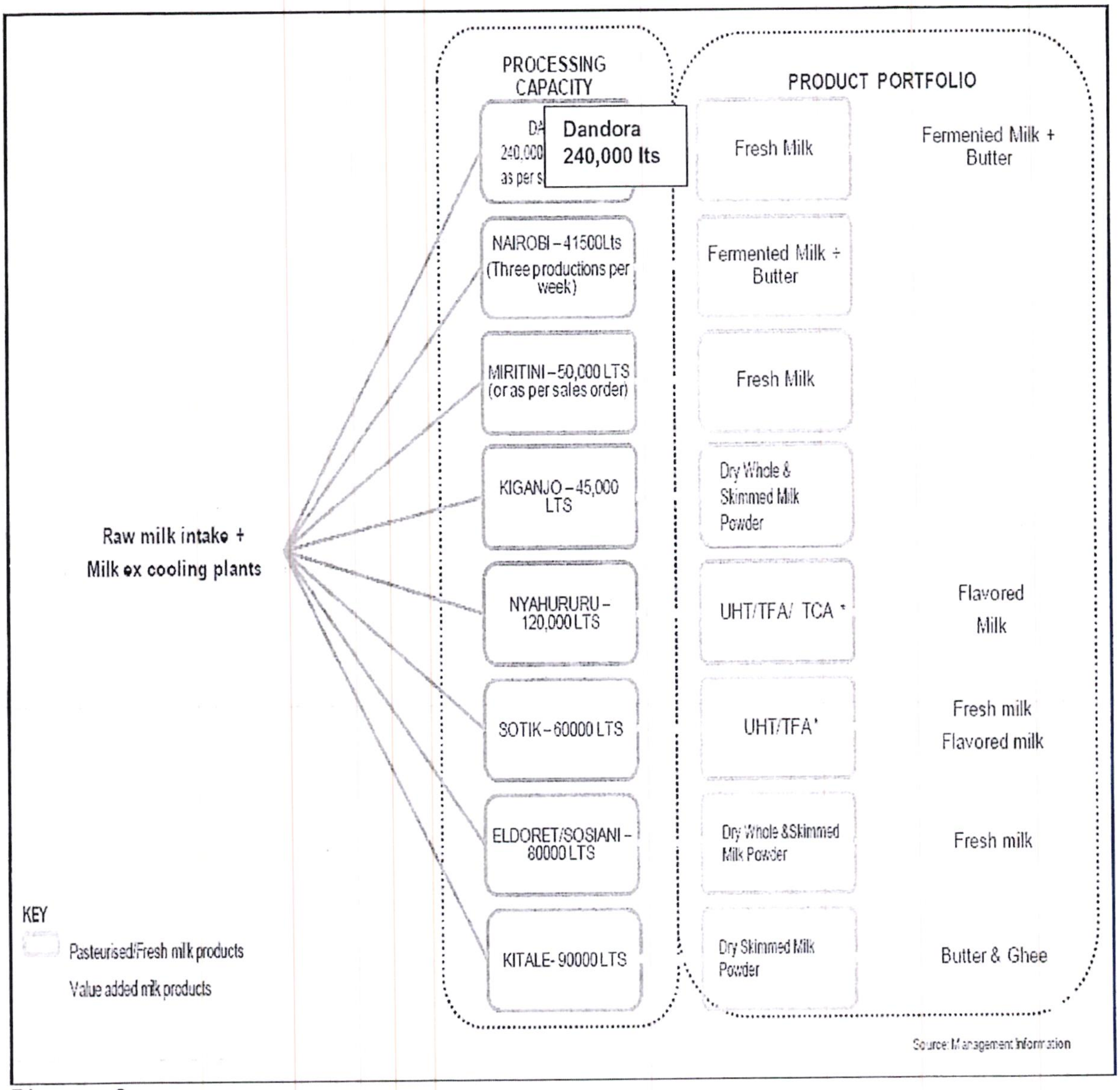


Diagram 3

4.6 Storage Capacity

a) Total installed storage capacity in the eight factories amounts to over 3 million litres, inclusive of over 0.9 million litres installed storage capacity in bulking centres.

b) Out of the total installed storage capacity of 3.1 million litres, over 75% is effectively utilised. This is due to periodic unavailability of milk, breakdown in some storage facilities, as well as the non-operational status of some machinery.

4.7 Processing Capacity

a) NKCC has a cumulative installed processing capacity of over 110,000 litres per hour. However, over 70% of the installed processing capacity is available for use. The suboptimal processing capacity is as a result of constraints such as aged, faulty and non-operational machinery.

b) Dandora, Nyahururu and Sotik account for the bulk of processing capacity.

c) It is understood that, with sufficient supply of milk, all the factories can operate at 100% of available processing capacity.

Figure 4– NKCC Sales

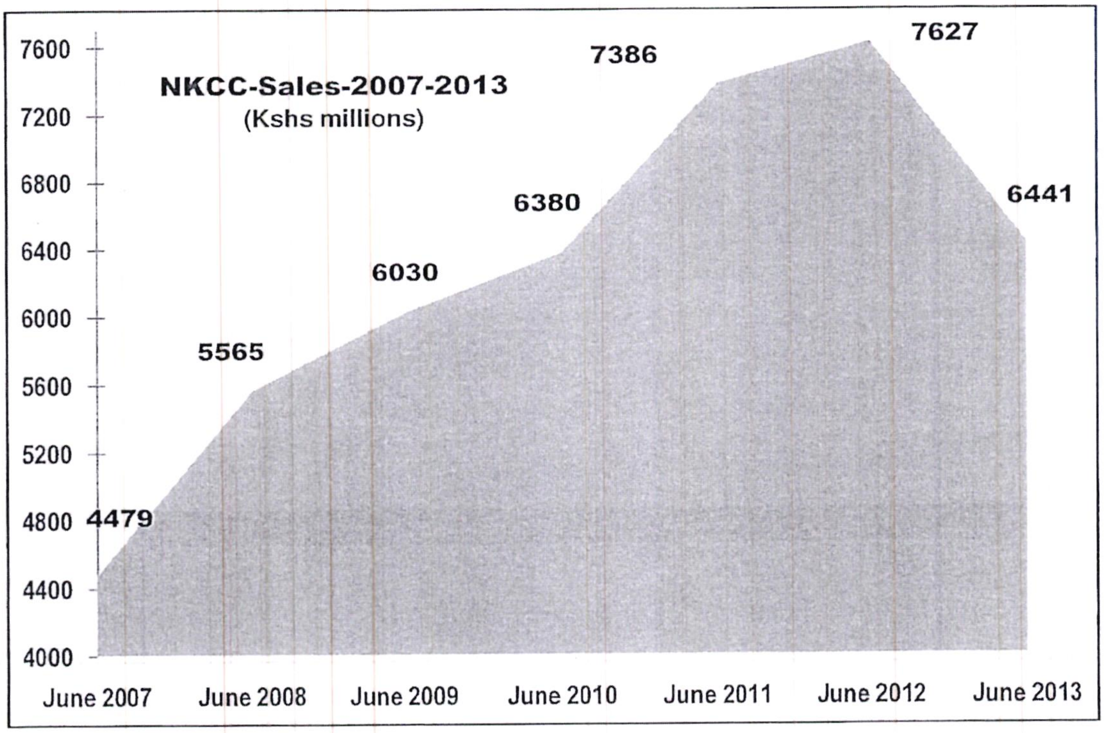


Figure 5 – NKCC Operating Profit

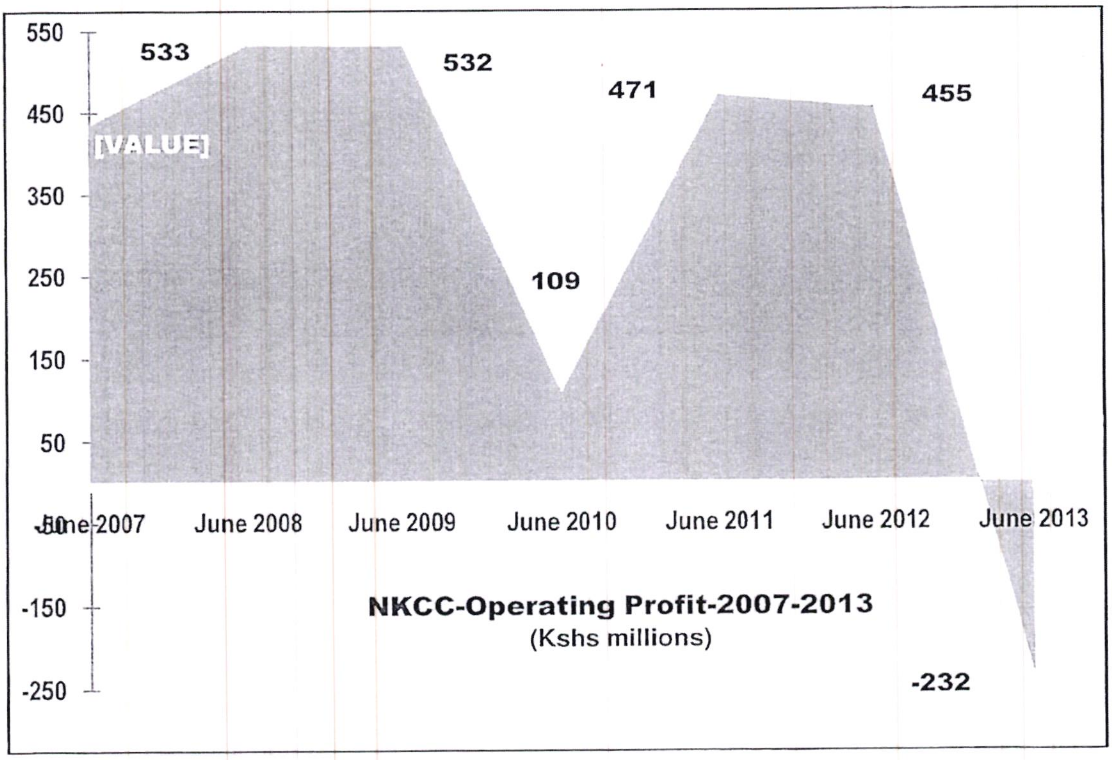


Figure 8 – NKCC Total Assets

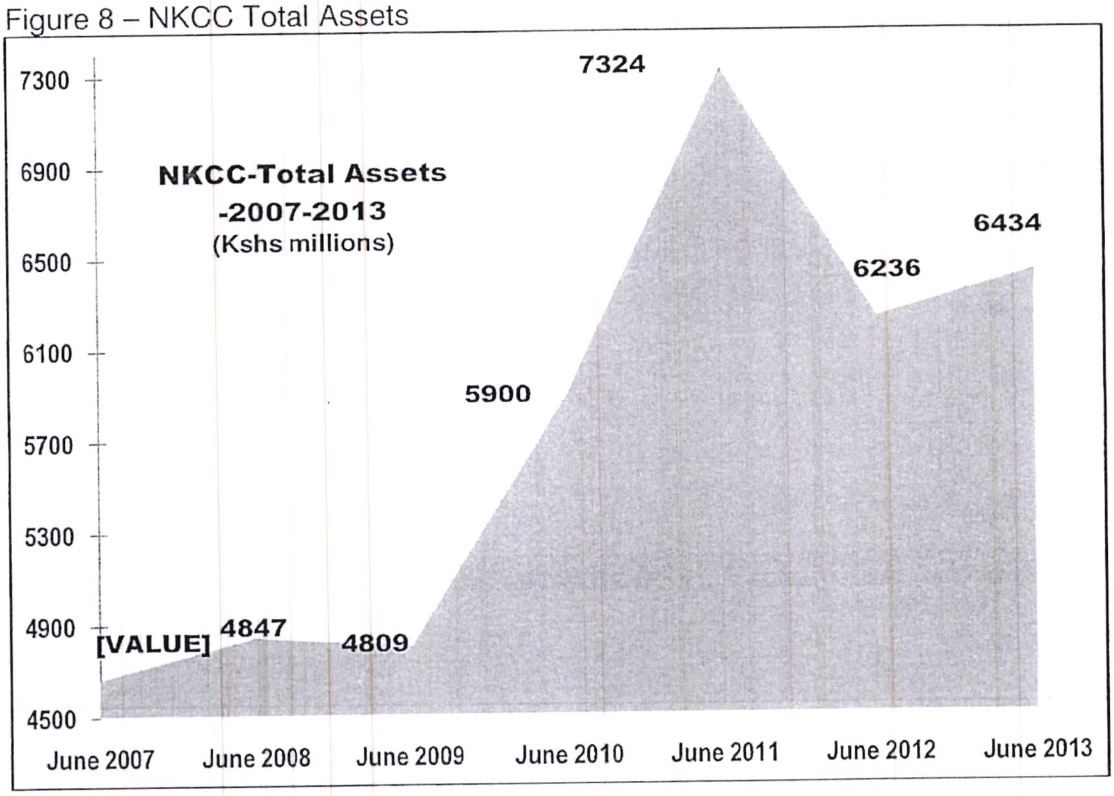
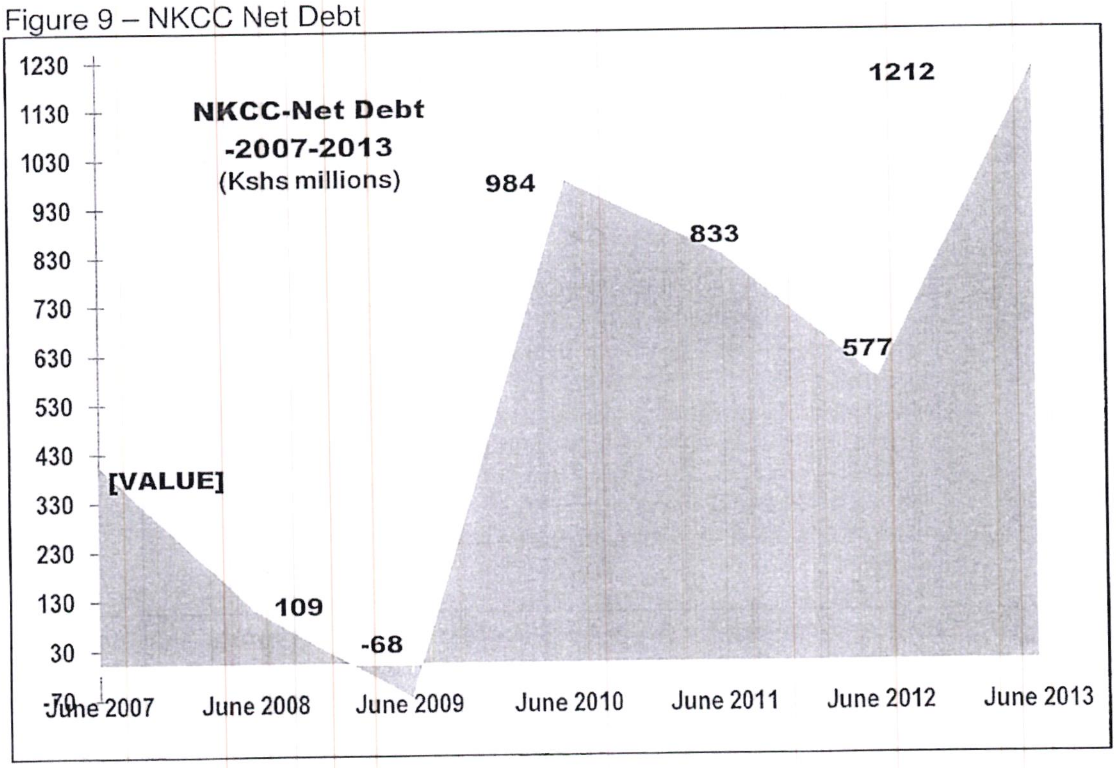


Figure 9 – NKCC Net Debt



D NKCC does require new equity capital or cash from sale of non-core assets.

5.10 Internal Controls

- NKCC"s updated Strategic & Business plan (2009-2014) confirms that the Company has weak internal controls particularly in sales and distribution.
- The strategic plan and its contents were adopted by NKCC.
- Incidents of loss are high. As an example, during the fieldwork, there was a loss of milk powder in transit. Additionally, some senior staff members of NKCC are currently on suspension (refer to HR analysis).
- Management commented that the fraud risk is high as a result of questionable integrity of some staff.

5.11 9 months for FY10 performance affected by the glut

- NKCC reported a loss of Kshs 26 million for the 9 months to 31March 2010. However full year FY10 financial results report a net profit of Kshs 95 million.
- Gross profit margin (GP margin) reduced as a result of lower prices, and higher average cost of goods sold per unit of fresh milk arising from the promotion where each purchase of fresh milk was coupled with a free product.
- NKCC is deemed as the buyer of last resort.

5.12 NKCC"s revenue driven bylow GP margin products

- Revenue growth has been driven by fresh milk sales.
- The top 2 revenue contributors: fresh milk and milk powder have lower GP margins of 27% and 15% respectively.
- UHT (Ultra Heat Treatment), shakes, butter and yoghurt have higher
- GP margins at 35%, 35%, 35% and 40% respectively.

5.13 NKCC"s customer base is diversified with the top 4 customers (with revenues of greater than 1%) accounting for only 15% of the revenue for the 9 months to 31 March 2010.

5.14 Rent

- NKCC does not accrue rental income. The Company only accounts for rental income when cash is received from tenants. This accounting basis is inconsistent with the accrual concept and does not adequately reflect the revenue related to rental property.
- However, the impact on the accounts is minimal as rental income accounts for 0.4% of revenues.

5.15 Year end adjustments include:

- Inventory adjustments;
- Price/stock valuation variance reconciliations;
- Leave pay (refer to page 19);
- Bad debt provisions; and
- Un-reconciled amounts in accruals.

5.16 Inventory

- NKCC"s inventory increased by Kshs 898 million between 30 June 2009 and 31 March 2010. The excess inventory was accumulated during the glut.
- Inventory of Kshs 1.4 billion represents more than 3 months of sales, which is high for a fresh food production company.

5.17 Inventory variances / Provisions for price/valuation variances have not been updated. It is unclear if reconciliation is done regularly to ensure that variances relating to stocks on hand are transferred to the income statement as inventory is sold.

5.25 NKCC has seven positions in senior management where persons are in an acting capacity. Which include the Managing Director, Company Secretary Corporate Affairs Manager and other four senior management positions following the suspension of staff.

5.26 The current organisation structure has a wide span of control for the Managing Director with some reporting relationships not being strategic but operational in nature. A new organisation structure was proposed and accepted by the Board following a HR Consultancy Assignment in 2009.

5.27 Leave
Outstanding leave liability for 233 management staff betweengrades KCC1 to KCC8 as at 31 March 2010 is Kshs. 33 million. The number of staff used for the analysis represent approximately 24% of the total workforce of NKCC.

5.28 NKCC has in place a HR Policies and Procedures Manual with appropriate HR policies. However, the manual is silent or not clear on benefits and allowances, loans, medical scheme, types of leave, discipline, code of conduct and other general information.

5.29 Commendable transformation over a three year period
The Information and Communications Technology (ICT) infrastructure is three years old. KCC did not have much before then (in terms of staff and infrastructure) and most systems were manual. There has been a marked improvement in a short time. The ICT team of 9 staff has implemented three of the four ICT initiatives set out in the corporate strategy for 2013.

5.30 ICT strategy, policies and governance need to be refreshed and given strategic audience
The ICT department has been able to exceed the targets set for it in the corporate strategy. A number of IT policies have been developed and enforced since May 2008. The ICT function is represented onthe Board by the Finance and General Purpose committee; there is no forum that exclusively deals with ICT at a strategic level.

5.31 There was a fresh roll out of the SAP - Enterprise Resource Planning (ERP) system that has run parallel operations since March 2010 and went live with a full changeover in July 2010. All remote locationsare connected over an Multiprotocol Label Switching (MPLS) network to the Head Office with adequate capacity and speeds. There is support for mobile workers and stations through the use of3G wireless connectivity over a secure virtual private network (VPN).

5.32 NKCC currently had no disaster recovery site. There are manual backup processes for onsite backup and a weekly schedule for offsite backup. The strategy for risk mitigation has not been fully implemented due to cost considerations and the disaster recovery plan is not exercised regularly. There are some gaps in redundancies of connectivity and for systems in remote branch locations.

5.33 Staff. There were nine member of staff and a vacancy for a Service Delivery Manager in the organisation structure.

NKCC has a staff complement of 1,000 (as at 31 March 2010). The staff are categorised as either Permanent, Temporary or Casual. Permanent staff are employed on a long term basis till attainment of the retirement age. Temporary staff are employed on one year contracts who are entitled to limited benefits, primarily medical and pension. Casual staff are employedfor a period not exceeding three months.

From a review of the manpower qualifications, the education levels of staff are above average. Out of a list of 1,018, 112 employees are graduates,217 hold diplomas and

CHAPTER 6

YEAR 2010 – BUSINESS OVERVIEW

The following is an extract of the New Kenya Co-operative Creameries Ltd Final Commercial and Financial - Due Diligence Report - dated 26 November 2010.

6.1 Products

NKCC"s product mix include:

- KCC Fresh milk;
- KCC Gold Crown;
- KCC UHT Long Life milk;
- KCC Butter;
- KCC Mala – fermented milk;
- KCC Delight – yoghurts;
- KCC Ghee;
- KCC Cheese;
- KCC Shakes – long life flavoured milk; and
- Safariland Milk Powder – (whole & skimmed).

- These products are sold in packaged sizes and priced differently depending on the size and the market segment. The pricing is also dependent on the cost of production especially the cost of purchasing inputs.

Product & Market Strategy

- According to NKCC"s July 2010 to June 2011 Budget Proposal, the Company"s overall product/market strategy is to shift to value added products and niche markets while taking the leadership in the mass market of the lower processed fresh milk market.
- The Budget Proposal borrows from the Company"s Updated Strategic and Business Plan (2009-2014), which identified diversification of its product mix into non-milk products as a key priority, together with reducing dependence on the fresh milk market which is very competitive within both the formal and informal market.
- The diversification is aimed at increasing profitability through production of value added products with better margins thus ensuring overall improved profitability of the entire portfolio.
- ExploitingNKCC"srecognisedbrandbyventuringintonewproduct areas.

NKCC"srolein theindustryis focusedonthemilkbulking,processinganddistributionstages:

- Milkbulking- NKCCoperatescoolingplantswherefarmersdeliver rawmilkforbulkingpriortotransportationtofactoriesforprocessing;
- Processor–Initsvariousfactories,NKCCprocessesmilkintothe variousproductshighlightedabove;and
- Distribution-NKCCemploysa depot/agentdistributionmodel throughwhichagentscollectproductsfromvarioussalesdepots nationwide.

6.2 The Farmer (NKCC Milk Producer)

- NKCC"smostvaluedsupplieris thefarmer.Farmersprovidetherawmilk thatisthekeyingredientintheproducts.FarmerssupplymilktoNKCCboth directlyandthroughdairyco-operatives.
- NKCChasbeenknowntobethebuyer oflastresortofthefarmers"milk andassuchwasunofficiallyobligatedtotakeallthemilksuppliedtoit as longas itmeetstheminimumstandardsforacceptance.
- NKCCassistsfarmersbyofferingthemanimalfeedsonacreditbasis, whicharedeductedfromthepaymentstothefarmers.
- NKCCpartneredwith theCo-operativeBankofKenyaand EquityBankinarrangingloanstothefarmerswhicharerepaidthrough paymentsforthemilkreceivedfromthem.Inadditiontothis,farmerswho purchaseNKCCproductsfromNKCCdepotsareaffordedspecial discountedpricessimilartothoseofferedtoNKCCstaff.
- NKCCalsoparticipatesandco-sponsorsfarmers"fielddaysalongwithother entitiessuchasfeedandveterinarysuppliers.Duringthesefielddays, farmersareeducatedontherightfeedsandveterinaryservicestobe providedtotheir livestockalongwith otherrelevantadvice.NKCClistensto farmerswith regardtoanyassistancethatmayberequired.Thishashelped torebuildtherelationshipswiththedairyfarmersthat werebrokenwith the collapseofKCCLimited.

6.3 PackagingSuppliers

- Anotherimportantsupplieris TetraPakwhoprovidemachineryand packagingmaterial.
- Withtheintroductionofthepolythenepouchpackaging,NKCChasreduced itsrelianceonTetraPakforpackagingmaterial.SilpackIndustriesLtdand PackagingIndustriesLtdareotherkeypackagingsuppliers.

6.4 Customer Analysis

The Kenyan market is defined by low, middle and upper bracket customers.

The NKCC Updated Strategic & Business Plan (2009 – 2014) categorised NKCC"s products shoppers, into the following categories A, B, C, D and E where each category was ranked from lowest (E) to highest (A) by the Kshs value of their typical shopping basket contents.

In Kenya there are very few A category customers. The pyramid consists mostly of E category customers but the combined purchasing power of B and C far outweighs A, D and E.

Category D & E make the bulk of NKCC"s sales volume.

6.5 SWOT

Strengths

- Strong brand – political/public goodwill/rich experience and heritage.
- Good network – NKCC has facilities in all milk catchment areas.
- Ability to process powder – NKCC is the only powder processor in Kenya (though new competitor is processing in Uganda).
- Good partnership – powdered milk produced is used as a raw material by various manufacturing companies.
- Acquisition of SAP Enterprise Resource Planning system.

- New systems if not properly implemented.

6.6 NKCC vis a vis Brookside

Source: A Kenya Dairy Board Officer

Given the dominance of Brookside in the processing segment, the competitor analysis has been focused on Brookside. The following are strengths and weaknesses of NKCC are based on observations and analysis by Kenya Dairy Board:

Strengths

- NKCC has the largest cooling plant infrastructure which gives is a competitive advantage with regards to milk collections and consequently quantity processed.
- NKCC is considered to have the largest fleet of modernised bulk milk transportation vehicles.
- The dispersion of its processing plants results in NKCC being able to have a wide milk processing outreach. This gives NKCC a competitive advantage as milk in outlier areas reaches the processing plants faster than other processors.
- NKCC has the widest variety of milk products and has exclusive production of cheese, butter and milk powder.
- As per KDB"s personnel surveys, NKCC has the most skilled productionpersonnel in both experience and education.
- NKCC has the least farmer complaints with regard to payments for milk delivered.

Weaknesses

- Business drive – NKCC is still not aggressive in the market especially in marketing and distribution of its products. This stems from the company"s work culture and employee attitudes and motivation.
- Based on KDB"s processing inspections, the single greatest challenge facing NKCC is the use of outdated processing equipment. Even though the quality of milk meets the quality standards as set by KDB and KeBS, the use of old processing machinery increases the cost of production across the value chain for NKCC. Specifically, this arises because NKCC"s processing equipment is not self regulating/controlling with regard to quality parameters like temperature, ingredients, quantity etc. Brookside is considered to have the best processing equipment.
- In comparison to Brookside, NKCC does not have high standards of hygiene.
- Brookside processing plants are clean with employees having protective apparel and sanitizers.
- From KDB inspections, NKCC does not keep detailed documentation of its processing especially with regards to quality and quantity. Brookside is known to have the best documentation in line with its ISO certification.

6.7 Going Forward

Based on the SWOT and competitor analysis below are proposed key areas ofattention going forward.

- NKCC should prioritise on modernising its processing plants and equipment. This will result in efficiency and reliability in its operations.
- Streamlining of its operations especially in decision making. Speedy decision making is hampered by the elaborate bureaucracy. As a Government institution NKCC is bound by additional legal requirements like the procurement act which lengthens the lead time of some of its operation and decisions vis a vis its competitors.

- Benchmark and identify alternative packaging sources;

- Redesign the management of procurement and supplier process;
- Redesign and automate business processes; and
- Determine opportunities to outsource non-core business process.

Learning & Growth
- Review and develop an optimal organisation structure and rebuild it to implement business strategy;
- Develop and implement a competency development framework;
- Enhance performance management;
- Develop and implement an innovation framework; and
- Develop and implement an asset management policy.

6.10 Detailed Plans

The following section highlights NKCC"s progress in implementing the strategies within its Updated Strategic Plan (2009 – 2014).

- Redesigning and automating of business processes
- Redesigning the distribution model
- Enhancing the development and management of customer relationships
- To identify and develop milk zones through partnerships with service providers
- Develop and nurture relationships with farmers, Co- operatives and other intermediaries
- Enhancing the milk collection model
- Enhance the image and brand of NKCC.
- Product rationalisation
- Repositioning of redefined products in distinct market segments; and
- Considering new product – health conscious products.
- Develop and manage new products: cow, goat or camelmilk and other non-milk products (water, juices).
- Research and implementation of energy and water conservation initiatives
- Benchmark and identify alternative packaging sources
- Enhance internal controls
- Determining opportunities to outsource non-core business processes.
- Implementation of lean manufacturing.
- The need for a cost benefit analysis of running factories to ensure operations streamlining;
- Address slow reaction times.
- NKCC"s organisation structure is top heavy, with suggestions to review and come up with an optimal organisation structure.
- Enhance performance management.
- Identify, implement and expand potential sources of debt funding.

6.11 Internal Controls

- NKCC"s updated Strategic & Business Plan (2009-2014) notes that the Company has weak internal controls resulting in fraud particularly in the sales and distribution.
- During the Consortiums fieldwork, for instance, the Dandora factory was dealing with a case of loss of milk powder in transit which resulted in the sacking of staff.

CHAPTER 7

SELECTED FINANCIAL OVERVIEW

The following is an extract of the New Kenya Co-operative Creameries Ltd Final Commercial and Financial - Due Diligence Report - dated 26 November 2010.

7.1 Profitability

ThetablebelowshowsNKCC"sfullyearincomestatementresultsbetween FY07-10.

Kshs 000	FY07	FY08	FY09	FY10	FY07-10 %CAGR
Sales	4,479,320	5,565,975	6,030,118	6,380,176	12.5%
Cost of sales	(3,164,903)	(4,002,260)	(4,453,052)	(4,987,433)	16.4%
Gross Profit	1,314,417	1,563,715	1,577,066	1,392,743	1.9%
SGA Expense	(423,252)	(507,971)	(546,297)	(608,801)	12.9%
Administrative expenses	(456,155)	(522,738)	(498,515)	(674,732)	13.5%
Operating profit	435,010	533,005	532,254	109,210	(36.5)%
Other income	17,859	19,467	25,905	28,167	16.4%
Financing costs	(68,748)	(52,154)	(59,348)	(59,937)	(4.5)%
Profit/loss before tax	384,121	500,319	495,811	77,441	(41.4)%
Taxation	(136,345)	(125,712)	(109,717)	17,665	(150.6)%
Profit After Tax	247,776	374,606	389,095	95,106	(27.3)%

% Gross profit margin	29.3%	28.1%	26.2%	21.8%
% Operating margin	9.7%	9.6%	8.8%	1.7%
% Sales growth	n/a	24.3%	8.3%	5.8%
% Opex growth	n/a	17.2%	11.3%	12.0%

n/a - Tax

Source: Audited & Management Accounts

7.2 Profit Contribution

Freshmilksalescontinuedtodominatesales.

Kshs 000's	9 months to March 2010	FY10	FY10 "Quarter 4"
Fresh Milk/TCA/TFA	3,538,710	4,719,933	1,181,224
Ultra heat treated(UHT) Milk	513,325	642,850	129,525
Powder Milk	227,321	317,204	89,883
Mala Milk	237,891	323,055	85,164
Other dairy products	308,153	400,095	91,942
Less: Transport rebates/discounts allowed	(13,888)	(22,961)	(9,073)
Total	**4,811,511**	**6,380,176**	**1,568,665**

Kshs 000's	FY07	FY08	FY09	FY10	
Non-current assets					
Property Plant & equipment	2,712,681	2,625,467	2,595,810	3,065,885	4.2%
Prepaid leases on land	324,698	316,947	309,195	302,781	(2.3)%
	3,037,380	2,942,414	2,905,004	3,368,665	3.5%
Current assets					
Inventories	951,235	689,765	501,745	1,624,584	19.5%
Trade receivables & prepayments	598,335	626,940	815,221	840,777	12.1%
Cash & cash equivalents	83,293	587,614	587,395	65,553	(7.7)%
	1,630,862	1,904,319	1,904,361	2,530,915	15.8%
Total assets	4,668,242	4,846,733	4,809,366	5,899,580	8.1%
Current Liabilities					
Bank Overdraft	-	-	-	280,126	n/a
Current portion of term loan	118,709	179,763	198,389	231,000	24.8%
Credit & accruals	768,121	580,528	595,385	1,141,526	14.1%
Related party balances	8,580	2,996	2,996	203,968	187.5%
Gratuity senior staff	7,732	15,142	19,670	19,071	35.1%
Tax payable	114,661	56,514	33,320	(104,197)	(196.9)%
Dividends	-	30,000	50,000	50,000	n/a
	1,017,803	864,943	899,759	1,821,493	21.4%
Non - Current Liabilities					
Term Loan	372,086	517,286	321,325	538,145	13.1%
Deferred Tax	607,110	571,796	514,825	497,160	(6.4)%
	979,196	1,089,082	836,150	1,035,305	1.9%
Capital & reserves					
Share Capital	547,029	547,029	547,029	547,029	0.0%
Revenue reserves	496,332	840,938	1,144,828	1,239,933	35.7%
Revaluation reserves	1,627,882	1,504,741	1,381,600	1,255,820	(8.3)%
Equity / Assets	2,671,243	2,892,708	3,073,457	3,042,782	4.4%
Total equity & liabilities	4,668,242	4,846,733	4,809,366	5,899,580	8.1%

Source: Audited & Management Accounts

7.6 Miscellaneous

- 67% of total receivables was over 120 days;
- 22.5% of the trade debtors were older than 120 days. NKCC did not age receivables beyond120 days;
- Thetopfourcustomers;Nakumatt,Tuskys,UchumiandDepartment of Defencearegiven preferentialpriceswhichareusuallylower thannormalcustomers.These customersconstituteover45%ofthetotaltradereceivables.
- 8.3% of all trade receivables are dormant. These are over 120 days old.Debtors are classified as dormant when their accounts become inactive for a period exceeding 6 months.
- The price/stock valuation variances have been increasingover the years.
- NKCC declared dividends for FY08 which was paid out in FY09.In FY09, the Company increased its dividend to Kshs 50 million, which to date, is unpaid. The FY10 balance sheet shows the an accrued liability relating to the unpaid dividend. NKCC does not have an defined dividend policy.

Budgeting Procedures

According toNKCC"s FY10/11 budget document, NKCC as a state corporation, prepares annual budgets and submits them to the Ministry of Finance/Treasury forapproval.

Budgets are drafted at factory and cooling plant level and submitted to head office for harmonisation and approval.

The FY10/11 budgets were drafted with reference to the Company"s 2009-2014 strategic plan.

7.8 Capital Expenditure

Management"sCapex plan for the five years 2010 to 2013 were as follows:

Kshs millions	2010	2011	2012	2013
Total Capex	1,120	1,439	1,042	1,330

- Kshs 605 million has been invested in capex in the 9 months to 31 March2010. This has been utilised in purchasing a milk instantiser in Kiganjo, milk pasteurizers and refrigerated tankers among others.
- Going forward NKCC"s key capital expenditure includes:
  - Purchase of milk tankers;
  - Purchase of cooling tanks;
  - Plant machinery;
  - Two additional processing plants each at Kshs 70 million; and
  - The rehabilitation of the Nakuru factory.
- NKCC"s capex budget for FY2010 – 2011 is Kshs 820 million, the budget had been submitted to the government for approval.
- The FY2010 – 2011 capex budget is planned to be utilised as follows:
  - Kshs 768 million (94%) has been earmarked for rehabilitation of the company facilities, replacement of old vehicles and the acquisition of additional fleet and machinery;
  - Kshs 16.5 million has been factored in for the replacement of crates & containers which are currently aged, as well as the additions to support the expected sales growth;
  - Office furniture & fitting – NKCC plans a major facelift of the company"soffices at a cost of Kshs 15 million;

Other capex is planned for the ongoing implementation of the ERP-SAP system which will necessitate additional computer hardware equipment as well as a feasibility study for suitable investment for capacity enhancement to process excess milk supplies during glut seasons. Kshs15 million has been provided for the consultancy services. However, supplementary budgets/financing plans to actualise the project will be submitted on completion of the feasibility study.

CHAPTER 8

YEAR 2010 – ASSETS VALUATION

The following is an extract of the properties valuation report of August 2010 by Regent Valuers International (K) Ltd (part of the SIB Consortium):

Name of Property / Factory / Plant	Land Reference No. / Title No.	Land	Buildings
Nyahururu Old Factory	L.R No 6585/13/1 &7176	20,000,000.00	11,700,000.00
Nyahururu New Factory	Two Unsurveyed Plots A & B (Nyahururu)	20,000,000	69,000,000.00
Nakuru Plot	Nakuru Municipality Block 13/215	2,500,000.00	-
Molo Factory	L.R.No. 533/309	3,000,000.00	5,000,000.00
Kipkelion Vacant Plot	L.R No. 598/195	2,000,000.00	-
Nakuru, Timber Mills Road Factory	Title No. Nakuru Municipality Block 6/68	21,000,000.00	21,000,000.00
Timber Mills Rd Collection Centre	Title No. Nakuru Municipality Block 6/25	10,500,000.00	3,200,000.00
Bungalow on Elgeyo Avenue	Nakuru Municipality Block 12/122	8,500,000.00	2,000,000.00
Senior Staff Flats	Nakuru Municipality Block 4/152	5,000,000.00	5,500,000.00
Bungalow on Elgeyo Avenue	Nakuru Municipality Block 12/121	6,800,000.00	1,800,000.00
Bungalow on Elgeyo Avenue	Nakuru Municipality Block 12/120	5,200,000.00	1,800,000.00
Bungalow on Tugen Close	Nakuru Municipality Block 12/112	9,000,000.00	1,700,000.00
Bungalow on Kipsigis Rise	Nakuru Municipality Block 11/32	5,500,000.00	2,000,000.00
Bungalow on Kipsigis Rise	Nakuru Muncipality Block 11/45	5,500,000.00	2,000,000.00
Bungalow on Maragoli Avenue	Nakuru Municipality Block 11/38	5,200,000.00	2,100,000.00
Molo Senior Staff Quarters 2	L.R No 533/35/II	800,000.00	2,500,000.00
Molo Borehole & pump house	L.R No 533/113/II	1,500,000.00	100,000.00
Molo Junior Staff Quarters	L.R No 533/302	300,000.00	1,000,000.00
Junior Staff Quarters	Nakuru Municipality Block 13/216	3,200,000.00	1,500,000.00
Molo Senior Staff Quarters	L.R No 533/13/II	3,600,000.00	3,400,000.00
Eldama Ravine Milk Collection Centre	Unregistered L.R No. 498/453	3,000,000.00	3,800,000.00
Kiganjo Factory	L.R. No. 9395	2,500,000.00	77,500,000.00
Kiganjo Residential Plot	L.R. No. 12038	11,850,000.00	25,650,000.00
Nanyuki Milk Collection Centre	L.R. No. 2787/XVI/2	450,000.00	24,750,000.00
Nanyuki Staff Houses	L.R. No. 2787/10/XV	3,000,000.00	4,700,000.00
Nanyuki Vacant	L.R. No. 2787/4/VI	1,300,000.00	-
Githumu Milk Collection Centre	Title No:Loc.3/Gichagiini/311	2,100,000.00	11,600,000.00
Githumu, Murang'a Residential Plot	Title No:Loc.3/Gichagiini/T.69	1,300,000.00	8,700,000.00
Kangema Milk Collection	Allotment Ref.No. 85395/8/B, Kangema Township	4,200,000.00	19,400,000.00
Runyenjes Milk Collection Centre	Title No. Kagaari/ Kigaa/ 281	2,850,000.00	22,850,000.00
Ndunyu Njeru Township Plot	Allotment No. 72313/T/G/II Unsurvyed plot	1,000,000.00	-
Naivasha Factory Complex	L.R.Nos: 5607, 426/2, 8547, 7562/1&7562/2 Naivasha	29,000,000.00	55,000,000.00
Machakos Godown	L.R.Nos: 5607, 426/2, 8547, 7562/1&7562/2 Naivasha	800,000.00	5,900,000.00

5.0 LIST OF DISPUTED PROPERTIES (NOT VALUED)

	PROPERTY L.R. No/ TITLE No.	LOCATION	REMARKS
1	Plot No. A. Allotment Ref TP39/VIII/152	Majengo area. Kitui Municipality	Re-allocated to the Ministry of Housing Developed with three (3) buildings.
2	L.R. No.1870/VII/87	Spring Valley, Gerathuru Gardens	Denied access. Ownership records missing.
3	L.R. No. 37/22(New No- L.R. No. 37/769)	Upperhill. Kiambere Road	Developed with residential flats and sold to other parties
4	L.R. No. 37/371	Upperhill. Kiambere Road	Denied access. Being developed by a third party.
5	L.R No. 37/544	Nairobi West	Denied access. Ownership records missing
6	L.R No. 37/457	Nairobi West	Denied access. Ownership records missing.
7	L.R No. 37/458	Nairobi West	Denied access. Ownership records missing.
8	L.R No. 37/460	Nairobi West	Denied access. Ownership records missing.
9	L.R No.3734/87	Convent Drive	Registered in the name of Kenevasta Limited. Being developed.
10	Plot No. 254/XVI/177	Olkalau Town	Developed by a third party.
11	Kutus Unsurveyed Plot	Kutus Township	Parcel sub-divided and allocated to third parties.
12	Thika Unsurveyed plot	Thika Town	Does not appear on map. Plot could not be located.

ii. Product testing results- Products meet KEBS standards but regular testing should be done to maintain compliance.

iii. Equipment - Records of calibration, repair, maintenance and traceability to national/ international metrology standards were lacking.

iv. Illness - No system was in place to manage staff return to work, neither were records of gastrointestinal infections of staff kept.

v. Hand washing - Most hand washing facilities were inadequate and did not completely address the required hygiene standards.

vi. Foot baths - Not provided in some of the factories.

vii. Pest control – Evidence of pest control activities at some sites although records of such activities was lacking.

viii. HAACP- Were implemented at some of the sites and compliance was ascertained, QMS not evident at any of the sites.

ix. Accreditation/GLP- Not implemented in any of the laboratories. Most of the labs/equipment needed upgrading.

x. Effluent management - Records of testing effluents for E.coli, BOD, COD, TSS, elemental Phosphorous, Ammonia (as N), flow, surfactants and colour before discharge were not availed.

An updated report may be required during the Implementation Phase of the Privatization.